

April 2010



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

Board of Governors of the Federal Reserve System

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## *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.

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

This report provides detailed information on the policy tools that have been implemented since the summer of 2007. It also provides financial reporting for calendar year 2009.

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 Appendix A of this report. Information related to the Federal Reserve's temporary liquidity programs and facilities that have closed or expired is included in Appendix B of 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](http://www.federalreserve.gov/monetarypolicy/bst_reports.htm).

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# Overview

## Recent Developments

- On April 21, 2010, the Federal Reserve System released the 2009 audited annual financial statements for the combined Federal Reserve Banks, the 12 individual Federal Reserve Banks, the limited liability companies (LLCs) that were created by the Federal Reserve to respond to strains in financial markets, and the Board of Governors. Total Reserve Bank assets as of December 31, 2009, were \$2.2 trillion, which represents a decrease of \$11 billion

from the previous year. The Reserve Banks reported comprehensive income of \$53.4 billion in the year ended December 31, 2009, up \$17.9 billion from the year prior. Total comprehensive income included interest earnings of \$20.4 billion on the federal agency and government-sponsored enterprise (GSE) mortgage-backed securities (MBS) holdings, \$22.9 billion on holdings of U.S. Treasury securities, and \$5.5 billion in interest income on loans to depository institutions and others. The consolidated LLCs contributed to the Reserve Banks' comprehensive

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

Billions of dollars

Item	Current March 31, 2010	Change from February 24, 2010	Change from April 1, 2009
<b>Total assets</b>	<b>2,311</b>	<b>+21</b>	<b>+230</b>
<i>Selected assets</i>			
Securities held outright	2,014	+38	+1,231
U.S. Treasury securities <sup>1</sup>	777	+*	+285
Federal agency debt securities <sup>1</sup>	169	+2	+115
Mortgage-backed securities <sup>2</sup>	1,069	+36	+832
Memo: Overnight securities lending <sup>3</sup>	14	+9	+7
Memo: Net commitments to purchase mortgage-backed securities <sup>4</sup>	104	-8	+40
Lending to depository institutions	12	-18	-513
Primary, secondary, and seasonal credit	8	-7	-50
Term auction credit	3	-12	-464
Lending through other credit facilities	55	+1	-199
Net portfolio holdings of Commercial Paper Funding Facility LLC <sup>5</sup>	8	+*	-242
Term Asset-Backed Securities Loan Facility <sup>6</sup>	47	+1	+42
Net portfolio holdings of TALF LLC <sup>7</sup>	*	+*	+*
Support for specific institutions	116	+1	-2
Credit extended to American International Group, Inc., net <sup>8</sup>	25	+*	-21
Net portfolio holdings of Maiden Lane LLC <sup>9</sup>	27	+*	+1
Net portfolio holdings of Maiden Lane II LLC <sup>9</sup>	15	-*	-4
Net portfolio holdings of Maiden Lane III LLC <sup>9</sup>	22	-*	-6
Preferred interests in AIA Aurora LLC and ALICO Holdings LLC <sup>6</sup>	25	+*	+25
<b>Total liabilities</b>	<b>2,258</b>	<b>+22</b>	<b>+223</b>
<i>Selected liabilities</i>			
Federal Reserve notes in circulation	894	+2	+29
Deposits of depository institutions	1,054	-195	+217
U.S. Treasury, general account	92	+79	+54
U.S. Treasury, supplementary financing account	125	+120	-75
Other deposits	19	+18	+5
<b>Total capital</b>	<b>52</b>	<b>-1</b>	<b>+6</b>

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

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

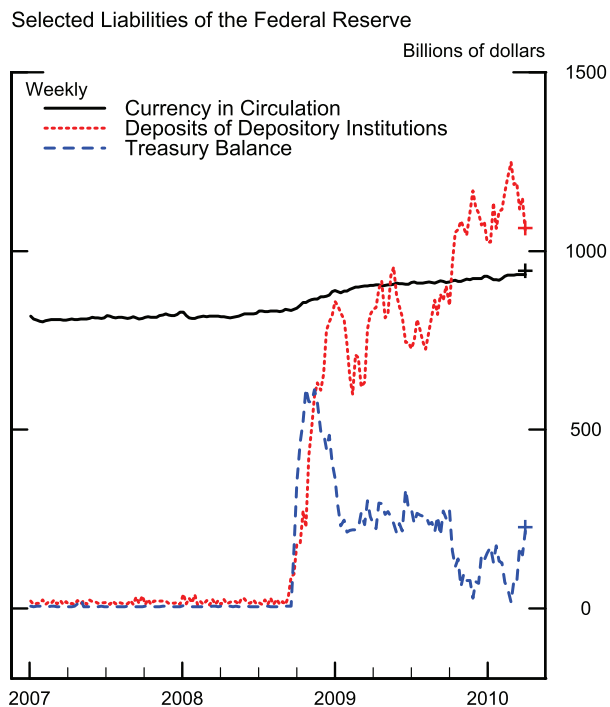
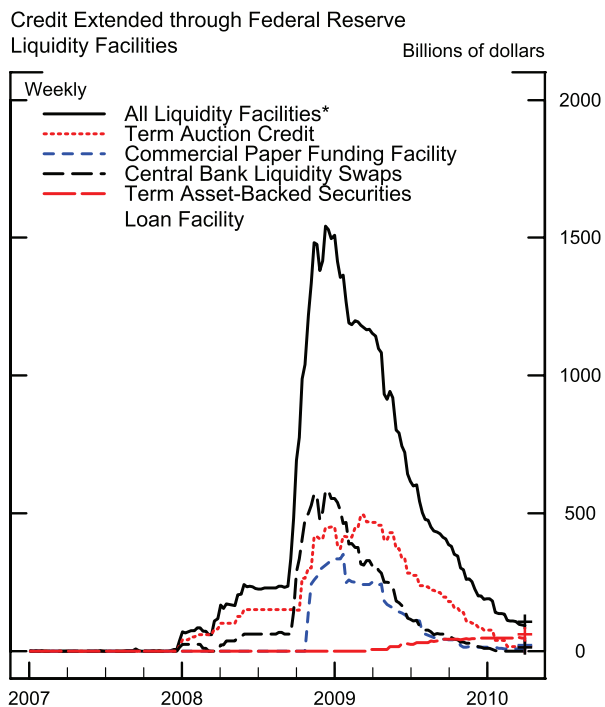
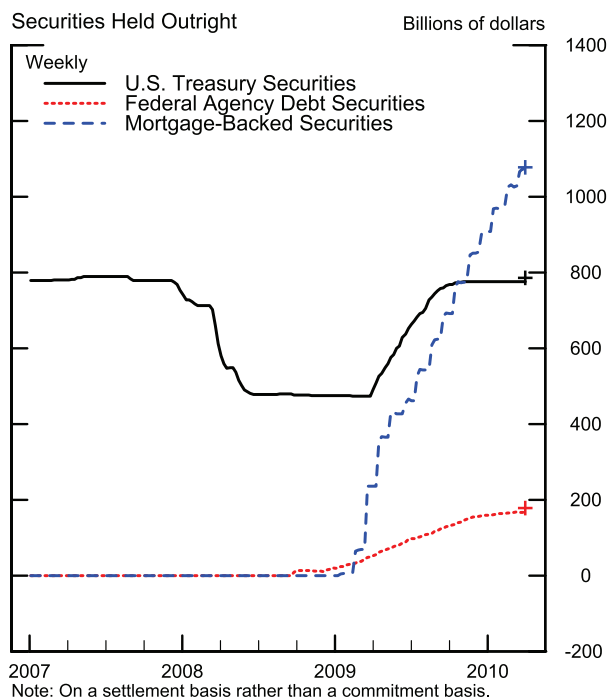
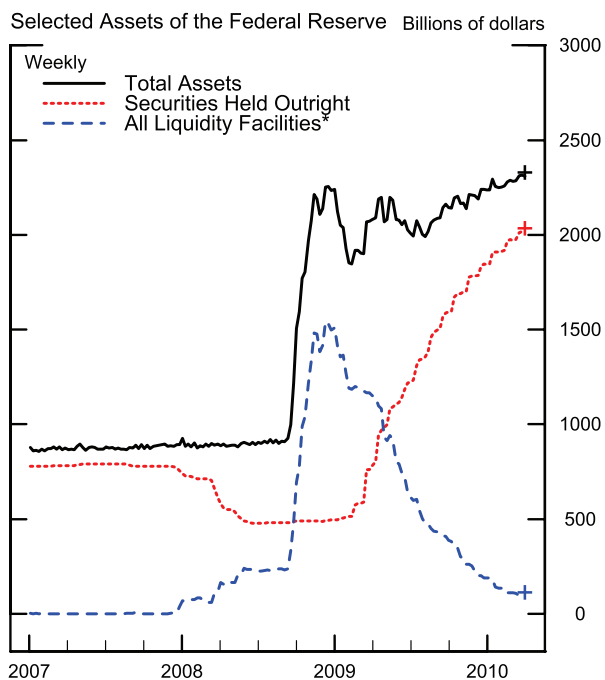
5. Includes commercial paper holdings, net, and about \$5 billion in other investments.

6. Book value.

7. As of March 31, 2010, TALF LLC had purchased no assets from the FRBNY.

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

9. Fair value, reflecting values as of December 31, 2009. Fair value reflects an estimate of the price that would be received upon selling an asset if the transaction were to be conducted in an orderly market on the measurement date. Fair values are updated quarterly.

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

+ indicates most recent data point. Data are shown through 3/31/2010.

\*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.



income, with net earnings of \$5.6 billion for the year ended December 31, 2009. The Federal Reserve System financial statements are available on the Federal Reserve Board's website at [www.federalreserve.gov/monetarypolicy/bst\\_fedfinancials.htm](http://www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm).

- To provide support to the economy and credit markets, the Federal Reserve has been purchasing \$1.25 trillion of agency MBS and about \$175 billion of agency debt; these purchases were completed at the end of March 2010.
- As previously announced, as of March 31, 2010, the Federal Reserve ceased extending loans against newly issued asset-backed securities (ABS) and legacy commercial mortgage-backed securities (CMBS) through the Term Asset-Backed Securities Loan Facility (TALF). Newly issued CMBS may be

financed through June 30, 2010. The Federal Reserve Bank of New York (FRBNY) requested that issuers, originators, or sponsors intending to request TALF eligibility for a newly issued CMBS prior to the program's expiration submit preliminary deal term sheets for the FRBNY's review by April 19, 2010. No preliminary deal term sheets were received.

- On March 31, 2010, the FRBNY released additional information on the holdings of the Maiden Lane portfolios on its public website at [www.newyorkfed.org/markets/maidenlane.html](http://www.newyorkfed.org/markets/maidenlane.html). The additional information includes the CUSIP number, descriptor, and the current principal balance or notional amount outstanding for all of the positions in each of the three Maiden Lane portfolios as of January 29, 2010.

## System Open Market Account (SOMA)

### Recent Developments

- The SOMA portfolio continued to expand, reflecting the Federal Reserve's purchases of securities under the large-scale asset purchase programs (LSAPs).
- As of March 31, 2010, the Federal Reserve held approximately \$169 billion in agency debt and \$1.07 trillion of agency mortgage-backed securities (MBS).

### 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 Federal Open Market Committee (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. 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. The composition of the SOMA is shown in table 2.

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](http://www.federalreserve.gov/releases/h41)). The release separately reports securities held outright, repos, and reverse repos.

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 consist of a purchase or sale of "to be announced" (TBA) MBS combined with an agreement to sell or purchase TBA MBS on a specified future date. 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.

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

Billions of dollars, as of March 31, 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 <sup>1</sup> .....	49
Federal agency debt securities <sup>2</sup> .....	169
Mortgage-backed securities <sup>3</sup> .....	1,069
<b>Total SOMA securities holdings .....</b>	<b>2,009</b>

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.

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. As of March 2, 2010, the FRBNY began to use its own staff on select days to transact directly in the secondary market for agency MBS as part of the FOMC's LSAP, consistent with the announcement of November 2009. 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](http://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 addition, the Federal Reserve has long operated an overnight securities lending facility as a vehicle to address market pressures for specific Treasury securi-

ties. 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.

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 included: 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.

On March 8, 2010, the FRBNY announced the beginning of a program to expand its counterparties for conducting reverse repos. This expansion is intended to enhance the capacity of such operations to drain reserves beyond what could likely be conducted through primary dealers, the FRBNY's traditional counterparties. The additional counterparties will not be eligible to participate in transactions conducted by the FRBNY other than reverse repos. Over time, the FRBNY expects that it will modify the counterparty criteria to include a broader set of counterparties and anticipates that it will publish criteria for additional types of firms and for expanded eligibility within previously identified types of firms. In this context, the FRBNY also published the Reverse Repurchase Transaction (RRP) Eligibility Criteria for Money Funds for the first set of expanded counterparties, domestic money market mutual funds.

## Lending Facilities to Support Overall Market Liquidity

### Lending to Depository Institutions

#### Recent Developments

- Credit provided to depository institutions through the discount window and the Term Auction Facility (TAF) has continued to decline, primarily reflecting reductions in loans outstanding under the TAF. The final TAF auction was conducted on March 8, 2010; credit extended under that auction matured on April 8, 2010.
- As indicated in table 5, the lendable value of total collateral pledged by depository institutions with discount window loans outstanding on March 31, 2010, was \$29 billion, more than twice the amount of credit outstanding.

#### Background

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

**Table 3. Discount Window Credit Outstanding to Depository Institutions**

Daily average borrowing for each class of borrower over five weeks ending March 31, 2010

Type and size of borrower	Average number of borrowers <sup>1</sup>	Average borrowing (\$ billions) <sup>2</sup>
<i>Commercial banks<sup>3</sup></i>		
Assets: more than \$50 billion .....	1	1
Assets: \$5 billion to \$50 billion .....	6	15
Assets: \$250 million to \$5 billion .....	53	3
Assets: less than \$250 million .....	40	*
Thrift institutions and credit unions .....	14	1
<b>Total .....</b>	<b>114</b>	<b>20</b>

Note: Unaudited. Includes primary, secondary, seasonal, and TAF credit. Size categories based on total domestic assets from Call Report data as of December 31, 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 345 institutions borrowed.

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

3. Includes branches and agencies of foreign banks.

**Table 4. Concentration of Discount Window Credit Outstanding to Depository Institutions**

For five weeks ending March 31, 2010

Rank by amount of borrowing	Number of borrowers	Daily average borrowing (\$ billions)
Top five .....	5	15
Next five .....	5	2
Other .....	104	3
<b>Total .....</b>	<b>114</b>	<b>20</b>

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.

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 narrowed the spread between the primary credit rate (generally referred to as the discount rate) and the Federal Open Market Committee's (FOMC's) target federal funds rate to 50 basis points and began to allow the provision of primary credit for terms as long as 30 days. On March 16, 2008, the Federal Reserve further narrowed the spread between the primary credit rate and the target federal funds rate to 25 basis points, and 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. On February 18, 2010, the Federal Reserve increased the spread between the primary credit rate and the top of the target range for the federal funds rate to 50 basis points, effective February 19, 2010. The Federal Reserve also announced that, effective March 18, 2010, the typical maximum maturity of primary credit loans would be shortened to overnight. These changes represented further normalization of the Federal Reserve's lending facilities and did not signal any change in the outlook for the economy or for monetary policy.

The TAF, which provides credit through an auction mechanism to depository institutions in generally

sound financial condition, was introduced by the Federal Reserve in December 2007. 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 in late 2009 and the maturity dates of the 84-day auctions were adjusted over time to align with the maturity dates of the 28-day auctions. Subsequently, the auction amount for the remaining 28-day auctions was tapered, and the final TAF auction was 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

**Table 5. Lendable Value of Collateral Pledged by Borrowing Depository Institutions**

Billions of dollars, as of March 31, 2010

Type of collateral	Lendable value
<i>Loans</i>	
Commercial .....	5
Residential mortgage .....	1
Commercial real estate .....	6
Consumer .....	4
<i>Securities</i>	
U.S. Treasury/agency .....	*
Municipal .....	5
Corporate market instruments .....	2
MBS/CMO: agency-guaranteed .....	*
MBS/CMO: other .....	1
Asset-backed .....	4
International (sovereign, agency, municipal, and corporate) .....	1
<b>Total</b> .....	<b>29</b>

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 \$12 billion. The lendable value of collateral pledged by all depository institutions, including those without any outstanding loans, was \$1,284 billion. Lendable value is value after application of appropriate haircuts. Components may not sum to total because of rounding.

\* Less than \$500 million.

**Table 6. Lendable Value of Securities Pledged by Depository Institutions by Rating**

Billions of dollars, as of March 31, 2010

Type of security and rating	Lendable value
U.S. Treasury, agency, and agency-guaranteed securities	152
<i>Other securities</i>	
AAA .....	178
Aa/AA <sup>1</sup> .....	43
A <sup>2</sup> .....	46
Baa/BBB <sup>3</sup> .....	19
Other investment-grade <sup>4</sup> .....	48
<b>Total</b> .....	<b>486</b>

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 or F1 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.

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

At the heart of the condition monitoring process is an internal rating system that provides a framework for identifying institutions that may pose undue risks to the Federal Reserve. The rating system relies mostly on information from each institution’s primary supervisor, including CAMELS ratings, to identify potentially problematic institutions and classify them according to the severity of the risk they pose to the Federal Reserve.<sup>1</sup> 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. Haircuts reflect credit risk and, for traded assets, the

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.



historical volatility of the asset's price and the liquidity of the market in which the asset is traded; the Federal Reserve's haircuts are generally in line with typical market practice. The Federal Reserve applies larger haircuts, and thus assigns lower lendable values, to assets for which no market price is available relative to comparable assets for which a market price is available. A borrower may be required to pledge additional collateral if its financial condition weakens. Collateral is pledged under the terms and conditions specified in the Federal Reserve Banks' standard lending agreement, Operating Circular No. 10 ([www.frb-services.org/files/regulations/pdf/operating\\_circular\\_10.pdf](http://www.frb-services.org/files/regulations/pdf/operating_circular_10.pdf)).

Discount window loans and extensions of credit through the TAF are made with recourse to the borrower beyond the pledged collateral. Nonetheless, collateral plays an important role in mitigating the credit risk associated with these extensions of credit. The Federal Reserve generally accepts as collateral for discount window loans and TAF credit any assets that meet regulatory standards for sound asset quality. This category of assets includes most performing loans and most investment-grade securities, although for some types of securities (including commercial mortgage-backed securities, collateralized debt obligations, collateralized loan obligations, and certain non-dollar-denominated foreign securities) only AAA-rated securities are accepted. 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 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](http://www.frbdiscountwindow.org)).

As shown in table 7, depository institutions that borrow from the Federal Reserve generally maintain collateral in excess of their current borrowing levels.

**Table 7. Discount Window Credit Outstanding to Borrowing Depository Institutions—Percent of Collateral Used**

As of March 31, 2010

Percent of collateral used	Number of borrowers	Total borrowing (\$ billions)
Over 0 and under 25 .....	44	2
25 to 50 .....	25	1
50 to 75 .....	16	8
75 to 90 .....	6	*
Over 90 .....	4	*
<b>Total .....</b>	<b>95</b>	<b>12</b>

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

\*Less than \$500 million.

## Commercial Paper Funding Facility (CPFF)

### Recent Developments

- The Federal Reserve closed the CPFF on February 1, 2010. CPFF LLC will retain its existing commercial paper holdings until the end of April 2010, when the remaining commercial paper will mature; 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 Federal Reserve Bank of New York (FRBNY) provides financing to the LLC, and the FRBNY's loan to the LLC is secured by all of the assets of the LLC, including those purchased with the accumulated upfront fees paid by the issuers. Breakdowns of commercial paper held in CPFF LLC, by type and credit rating, are shown in tables 9 and 10, 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 consoli-

**Table 8. Concentration of CPFF Issuers**

For four weeks ending March 31, 2010

	Number of borrowers	Daily average borrowing (\$ billions)
<b>Total .....</b>	<b>4</b>	<b>3</b>

Note: Unaudited. Amount of commercial paper held in the CPFF that was issued by issuers on each day.

**Table 9. CPFF Commercial Paper Holdings by Type**  
Billions of dollars, as of March 31, 2010

Type of commercial paper	Value
<i>Unsecured commercial paper</i>	
Issued by financial firms .....	0
Issued by nonfinancial firms .....	0
Asset-backed commercial paper .....	3
<b>Total</b> .....	<b>3</b>

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

**Table 10. CPFF Commercial Paper Holdings by Rating**  
Billions of dollars, as of March 31, 2010

Type of collateral	Value
<i>Commercial paper with rating<sup>1</sup></i>	
A-1/P-1/F1 .....	3
Split-rated .....	0
Downgraded after purchase .....	0
<b>Total</b> .....	<b>3</b>

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 (ABCP)) 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.

dated 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. The CPFF was closed on February 1, 2010. CPFF LLC will retain its existing commercial paper holdings until the end of April 2010, when the remaining commercial paper will mature, and the LLC's other assets will remain until the LLC is dissolved.

## Term Asset-Backed Securities Loan Facility (TALF)

### Recent Developments

- As previously announced, the Federal Reserve ceased extending loans against newly issued asset-backed securities (ABS) and legacy commercial mortgage-backed securities (CMBS) through the TALF as of March 31, 2010. Newly issued CMBS may be financed through June 30, 2010. The Federal Reserve Bank of New York (FRBNY) requested that issuers, originators, or sponsors intending to request TALF eligibility for a newly issued CMBS prior to the program's expiration submit preliminary deal term sheets for the FRBNY's review by April 19, 2010. No preliminary deal term sheets were received.

**Table 11. TALF: Number of Borrowers and Loans Outstanding**

As of March 31, 2010

Lending program	Number of borrowers	Borrowing (\$ billions) <sup>1</sup>
Non-CMBS .....	94	37
CMBS .....	78	10
<b>Total</b> .....	<b>143</b>	<b>47</b>

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.

1. Book value.

- The March 2010 non-CMBS TALF subscription supported the primary issuance of six ABS deals worth a total of about \$7.2 billion, of which \$3.2 billion was financed through the TALF. Approximately \$0.9 billion in loans was also extended against previously issued TALF-eligible ABS collateral. In addition, \$0.9 billion in TALF loans was extended against legacy CMBS collateral in the March CMBS TALF subscription and \$1.1 billion in TALF loans was extended against legacy CMBS collateral in the February CMBS TALF subscription, which settled on February 25, 2010.
- As of March 31, 2010, several TALF-related items on the H.4.1 have been modified to include fair value adjustments. A fair value adjustment of \$0.6 billion increased the reported value of the credit extended by the FRBNY to eligible borrowers through the TALF. The fair value adjustment reflects the value of the future interest to be received by the FRBNY that is paid to TALF LLC to provide credit protection. The adjustment is substantially offset by a corresponding increase in the fair value of the liability to the U.S. Treasury related to its beneficial interest in TALF LLC.

### 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. Using funds authorized under the Troubled Assets Relief Program (TARP) of the Emergency Economic Stabilization Act of 2008, the U.S. Treasury has committed to lend up to \$20 billion to TALF LLC to provide protection against losses to the FRBNY.

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 March 31, 2010, however, the authorized limit for the program remained at \$200 billion.

Between March 2009 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 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 proposed rule was intended to strike a balance between the goal of promoting competition among NRSROs and the goal of ensuring appropriate protection against credit risk in TALF for the U.S. taxpayer. 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 was the implementation by the FRBNY of a formal risk assessment of all proposed collateral for TALF ABS transactions, in addition to continuing to require that collateral for TALF loans receive two AAA ratings from TALF-eligible NRSROs. This was intended to protect against TALF accepting excessive risk, as well as address any increased credit risk in the program caused by an expansion of the set of NRSROs accepted at TALF. The goal of the risk assessment process for ABS is to 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.



**Table 12A. Issuers of Non-CMBS that Collateralize Outstanding TALF Loans**

As of March 31, 2010

Issuers
AH Mortgage Advance Trust 2009-ADV2
AH Mortgage Advance Trust 2009-ADV3
Ally Master Owner Trust
American Express Credit Account Master Trust
AmeriCredit Automobile Receivables Trust 2009-1
ARI Fleet Lease Trust 2010-A
Bank of America Auto Trust 2009-1
BMW Floorplan Master Owner Trust
BMW Vehicle Lease Trust 2009-1
Cabela's Credit Card Master Note Trust
CarMax Auto Owner Trust 2009-1
CarMax Auto Owner Trust 2009-A
Chase Issuance Trust
Chesapeake Funding LLC
Chrysler Financial Auto Securitization Trust 2009-A
CIT Equipment Collateral 2009-VT1
CIT Equipment Collateral 2010-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 Floorplan Master Owner Trust A
GE Capital Credit Card Master Note Trust
GE Dealer Floorplan Master Note Trust
Great America Leasing Receivables Funding, L.L.C.
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 Floorplan Master Owner Trust
John Deere Owner Trust 2009
Marlin Leasing Receivables XII LLC
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
SLC Private Student Loan Trust 2010-B
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
SLM Private Education Loan Trust 2010-A
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 12B. Issuers of Newly Issued CMBS that Collateralize Outstanding TALF Loans**

As of March 31, 2010

Issuers <sup>1</sup>
----------------------

1. There are currently no outstanding TALF loans collateralized with newly issued CMBS.

**Table 12C. Issuers of Legacy CMBS that Collateralize Outstanding TALF Loans**

As of March 31, 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 2005-3
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 2004-TOP16
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-PWR10
Bear Stearns Commercial Mortgage Securities Trust 2005-TOP18
Bear Stearns Commercial Mortgage Securities Trust 2005-TOP20
Bear Stearns Commercial Mortgage Securities Trust 2006-PWR11
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-C2
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-C1
Credit Suisse Commercial Mortgage Trust Series 2007-C2
Credit Suisse Commercial Mortgage Trust Series 2007-C3
Credit Suisse Commercial Mortgage Trust Series 2007-C4
Credit Suisse Commercial Mortgage Trust Series 2007-C5
CSFB Commercial Mortgage Trust 2004-C1
CSFB Commercial Mortgage Trust 2004-C3
CSFB Commercial Mortgage Trust 2005-C1
CSFB Commercial Mortgage Trust 2005-C2

**Table 12C. Issuers of Legacy CMBS that Collateralize Outstanding TALF Loans—Continued**

As of March 31, 2010

Issuers
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
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-LDP3
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-LDP7
J.P. Morgan Chase Commercial Mortgage Securities Trust 2006-LDP8
J.P. Morgan Chase Commercial Mortgage Securities Trust 2006-LDP9
J.P. Morgan Chase Commercial Mortgage Securities Trust 2007-CIBC20
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 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
Merrill Lynch Mortgage Trust 2007-C1

**Table 12C. Issuers of Legacy CMBS that Collateralize Outstanding TALF Loans—Continued**

As of March 31, 2010

Issuers
ML-CFC Commercial Mortgage Trust 2006-1
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 2007-8
ML-CFC Commercial Mortgage Trust 2007-9
Morgan Stanley Capital I Trust 2003-IQ4
Morgan Stanley Capital I Trust 2004-HQ4
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-HQ8
Morgan Stanley Capital I Trust 2006-HQ10
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-IQ13
Morgan Stanley Capital I Trust 2007-IQ14
Morgan Stanley Capital I Trust 2007-IQ15
Morgan Stanley Capital I Trust 2007-TOP25
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-C18
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
Wachovia Bank Commercial Mortgage Trust Series 2007-C34

### 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

**Table 13. TALF Collateral by Underlying Loan Type**

Billions of dollars, as of March 31, 2010

Type of collateral	Value
<i>By underlying loan type</i>	
Auto .....	4
Commercial mortgages .....	12
Newly issued .....	0
Legacy .....	12
Credit card .....	18
Equipment .....	1
Floorplan .....	4
Premium finance .....	2
Servicing advances .....	1
Small business .....	2
Student loan .....	9
<b>Total</b> .....	<b>53</b>

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

credit of the U.S. government. All or substantially all of the credit exposures underlying eligible ABS must be exposures to U.S.-domiciled obligors or with respect to real property located in the United States or its territories. The underlying credit exposures of eligible ABS must be student loans, auto loans, credit card loans, loans or 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

**Table 14. TALF Collateral by Rating**

Billions of dollars, as of March 31, 2010

Type of collateral	Value
<i>Asset-backed securities with minimum rating of:<sup>1</sup></i>	
AAA/Aaa .....	53
AA+/Aa+ to AA-/Aa- .....	*
<b>Total</b> .....	<b>53</b>

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

\* Less than \$500 million.

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.

the various types of eligible ABS. Breakdowns of TALF collateral by underlying loan type and credit rating are shown in tables 13 and 14, respectively.

TALF LLC, a limited liability company, was formed to purchase and manage any ABS that might be surrendered by a TALF borrower or otherwise claimed by the FRBNY in connection with its enforcement rights to the TALF collateral. In certain limited circumstances, TALF LLC may also purchase TALF program loans from the FRBNY. TALF LLC has committed to purchase, for a fee, all such assets 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 the 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 March 31, 2010, TALF LLC had purchased no assets from the FRBNY.

## Lending in Support of Specific Institutions

### Quarterly Developments

- Cash flows generated from the Maiden Lane II and Maiden Lane III portfolios are used to pay down the loans from the Federal Reserve Bank of New York (FRBNY). Those repayments totaled \$10 billion for the full year 2009 and \$2 billion for the fourth quarter of 2009, as presented in tables 20 and 23. To date, cash flows from the Maiden Lane portfolio have been reinvested primarily in agency mortgage-backed securities (MBS).

### 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

**Table 15. Fair Value Asset Coverage**

Millions of dollars

	Fair value asset coverage of FRBNY loan on 12/31/2009	Fair value asset coverage of FRBNY loan on 9/30/2009
Maiden Lane LLC .....	(2,230)	(3,055)
Maiden Lane II LLC .....	(95)	(604)
Maiden Lane III LLC .....	4,294	3,645

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 29) is greater or less than the outstanding balance of the loans extended by the FRBNY, including accrued interest.

**Table 16. 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
<i>Most Recent Quarterly Activity</i>		
Principal balance on 9/30/2009 (including accrued and capitalized interest) .....	29,196	1,233
Accrued and capitalized interest 9/30/2009 to 12/31/2009 .....	37	15
Repayment during the period from 9/30/2009 to 12/31/2009 .....	—	—
Principal balance on 12/31/2009 (including accrued and capitalized interest) .....	29,233	1,248

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.

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](http://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. 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 December 31, 2009, in tables 16 through 18 and figure 2. This information is updated on a quarterly basis.

**Table 17. Maiden Lane LLC Summary of Portfolio Composition, Cash and Cash Equivalents, and Other Assets and Liabilities**

Millions of dollars

	Fair Value on 12/31/2009	Fair Value on 9/30/2009
Federal Agency & GSE MBS .....	18,149	17,437
Non-agency RMBS .....	1,909	1,938
Commercial loans .....	4,025	4,025
Residential loans .....	583	623
Swap contracts <sup>1</sup> .....	985	1,318
TBA commitments <sup>2</sup> .....	—	382
Other investments .....	907	863
Cash and cash equivalents .....	1,242	1,446
Other assets <sup>3</sup> .....	198	527
Other liabilities <sup>1,4</sup> .....	(995)	(2,418)
<b>Net assets .....</b>	<b>27,003</b>	<b>26,141</b>

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

1. Fair value of swap contracts is presented net of associated liabilities.

2. To be announced (TBA) commitments are commitments to purchase or sell MBS for a fixed price at a future date.

3. Including interest and principal receivable and other assets.

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



**Table 18. Maiden Lane LLC Securities Distribution by Sector and Rating**

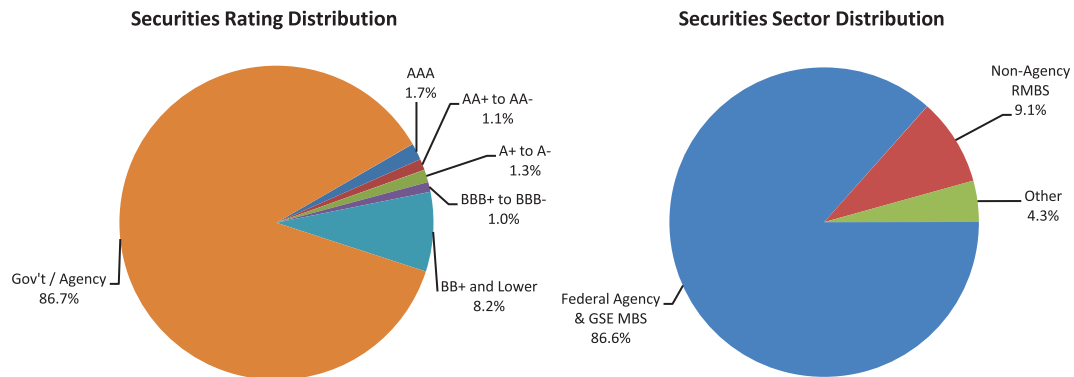
Percent, as of December 31, 2009

Sector <sup>1</sup>	Rating						Total
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and lower	Gov't/Agency	
Federal Agency & GSE MBS ...	0.0	0.0	0.0	0.0	0.0	86.6	86.6
Non-agency RMBS .....	0.5	0.5	0.8	0.3	7.0	0.0	9.1
Other <sup>2</sup> .....	1.2	0.6	0.5	0.7	1.2	0.1	4.3
<b>Total</b> .....	<b>1.7</b>	<b>1.1</b>	<b>1.3</b>	<b>1.0</b>	<b>8.2</b>	<b>86.7</b>	<b>100.0</b>

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 December 31, 2009**

## American International Group (AIG)

### Recent Developments

- The maximum amount available under the AIG revolving credit facility was reduced in March from \$34.4 billion to approximately \$34.1 billion in connection with AIG's sale of equity interests in its subsidiary, CFG Colombia, and the sale of a portion of its asset management business, PineBridge Global Investments LLC, to Pacific Century Group, an Asia-based private investment firm.
- The balance on the AIG revolving credit facility increased by \$0.1 billion between February 24 and March 31, 2010, as presented in table 19A.
- As of March 31, 2010, consistent with generally accepted accounting principles (GAAP), the AIG

**Table 19A. AIG Revolving Credit Facility**

Billions of dollars

	Value
Balance on February 24, 2010 .....	25.3
Principal drawdowns .....	2.8
Principal repayments and reductions .....	(1.9)
Recapitalized interest and fees .....	0.3
Restructuring allowance, net .....	(1.1)
Balance on March 31, 2010 .....	25.4

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.

revolving credit extension was reduced by a revision to the loan restructuring adjustment. The restructuring adjustment is related to the loan modification, announced on March 2, 2009, that eliminated the floor on the Libor rate, and that was first incorporated in reported figures beginning with the July 30, 2009, H.4.1 release. The restructuring adjustment recognizes the economic effect of the reduced interest rate on the revolving credit facility and will be amortized over the remaining term of the credit extension.

### 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

**Table 19B. Preferred Interests in AIA Aurora LLC and ALICO Holdings LLC**

Billions of dollars

Balance on March 31, 2010	Value
Preferred Interests in AIA Aurora LLC and ALICO Holdings LLC <sup>1</sup> .....	25.4
Accrued dividends on preferred interests in AIA Aurora LLC and ALICO Holdings LLC .....	0

Note: Unaudited.

1. Book value.

financial system and the broader economy, and provide the company time to restructure its operations in an orderly manner. Initially, the Federal Reserve Bank of New York (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](http://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 further 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](http://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, 2009. 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 GAAP, as of July 29, 2009, the reported value of the AIG revolving credit extension was reduced by a \$1.3 billion adjustment to reflect the loan restructuring. This restructuring adjustment is intended to recognize the economic effect of the reduced interest rate and will be recovered as the adjustment is amortized over the remaining term of the credit extension. The Federal Reserve expects that the credit extension, including interest and commitment fees under the modified terms, will be fully repaid.

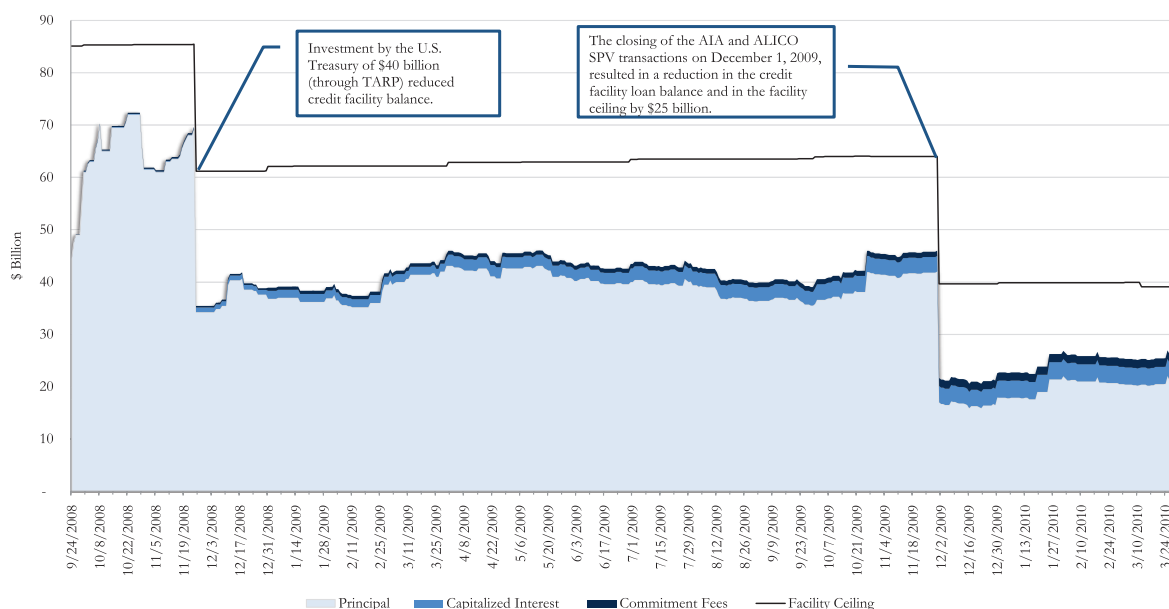
The interest rate on the loan to AIG is the three-month Libor, plus 300 basis points. The lending under this facility is secured by a pledge of assets of AIG

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.

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 Group, Limited (AIA) and American Life Insurance Company (ALICO). In exchange, upon the closing of each transaction and the resulting issuance of preferred interests, the outstanding balance of, and amount available excluding capitalized interest and fees to, AIG 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. On the H.4.1 statistical release, accrued but unpaid dividends on the preferred interests in the two SPVs are included in "Other Federal Reserve assets" in table 1, and in "Other assets" in tables 10 and 11.

On March 1, 2010, AIG announced the signing of a definitive agreement for the sale of AIA to Prudential plc for approximately \$35.5 billion, including approximately \$25 billion in cash, \$8.5 billion in face value of equity and equity-linked securities, and \$2.0 billion in face value of preferred stock of Prudential, subject to closing adjustments. AIG stated that the cash portion of the proceeds from the sale would be used to fully redeem the approximately \$16 billion of preferred interests held by the FRBNY in the SPV that holds AIA, and to repay approximately \$9 billion of its borrowing under the revolving credit facility with the FRBNY. The transaction was approved by the boards of directors of both AIG and Prudential, and is expected to close by the end of 2010, subject to approval by Prudential shareholders, regulatory approvals, and customary closing conditions.

On March 8, 2010, AIG announced the signing of a definitive agreement for the sale of ALICO to MetLife, Inc. for approximately \$15.5 billion, including \$6.8 billion in cash and the remainder in equity securities of MetLife, subject to closing adjustments. AIG stated

**Figure 3. AIG Revolving Credit**

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

that the cash portion of the proceeds from this sale would be used to redeem an equivalent amount of the approximately \$9 billion of preferred interests held by the FRBNY in the SPV that holds ALICO. The transaction was approved by the boards of directors of both AIG and MetLife, and is expected to close by the end of 2010, subject to the approvals of certain domestic and international regulatory bodies and to customary closing conditions.

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.<sup>2</sup> 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. 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](http://www.newyorkfed.org/markets/maidenlane2.html)).

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 December 31, 2009, in tables 20 through 22 and figure 4. This information is updated on a quarterly basis.

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 20. 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
<i>Most Recent Quarterly Activity</i>		
Principal balance on 9/30/2009 (including accrued and capitalized interest) .....	16,801	1,028
Accrued and capitalized interest 9/30/2009 to 12/31/2009 .....	51	8
Repayment during the period from 9/30/2009 to 12/31/2009 .....	(847)	—
Principal balance on 12/31/2009 (including accrued and capitalized interest) .....	16,005	1,036

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 21. Maiden Lane II LLC Summary of RMBS Portfolio Composition, Cash and Cash Equivalents, and Other Assets and Liabilities**

Millions of dollars

	Fair Value on 12/31/2009	Fair Value on 9/30/2009
Alt-A ARM .....	4,894	4,903
Subprime .....	8,566	8,758
Option ARM .....	953	939
Other <sup>1</sup> .....	1,230	1,299
Cash and cash equivalents .....	267	297
Other assets <sup>2</sup> .....	2	3
Other liabilities <sup>3</sup> .....	(2)	(2)
<b>Net assets</b> .....	<b>15,910</b>	<b>16,197</b>

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.

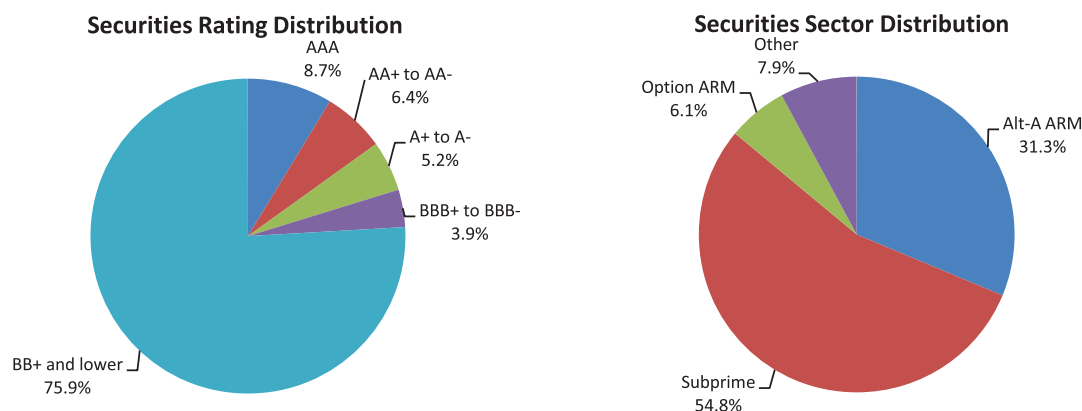
**Table 22. Maiden Lane II LLC Securities Distribution by Sector and Rating**

Percent, as of December 31, 2009

RMBS sector	Rating					Total
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and lower	
Alt-A ARM .....	0.9	3.1	2.2	1.9	23.3	31.3
Subprime .....	7.7	2.8	3.0	1.9	39.4	54.8
Option ARM .....	0.0	0.0	0.0	0.1	6.0	6.1
Other <sup>1</sup> .....	0.1	0.6	0.0	0.0	7.2	7.9
<b>Total</b> .....	<b>8.7</b>	<b>6.4</b>	<b>5.2</b>	<b>3.9</b>	<b>75.9</b>	<b>100.0</b>

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 December 31, 2009**



## 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.<sup>3</sup> 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. 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](http://www.newyorkfed.org/markets/maidenlane3.html)). Assets of the portfolio of the LLC will be managed to maximize cash flows to ensure

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 23. 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
<i>Most Recent Quarterly Activity</i>		
Principal balance on 9/30/2009 (including accrued and capitalized interest) .....	19,855	5,151
Accrued and capitalized interest 9/30/2009 to 12/31/2009 .....	60	42
Repayment during the period from 9/30/2009 to 12/31/2009 .....	(1,415)	—
Principal balance on 12/31/2009 (including accrued and capitalized interest) .....	18,500	5,193

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 the FRBNY.

**Table 24. Maiden Lane III LLC Summary of Portfolio Composition, Cash and Cash Equivalents, and Other Assets and Liabilities**

Millions of dollars

	Fair Value on 12/31/2009	Fair Value on 9/30/2009
High-grade ABS CDO .....	15,400	16,001
Mezzanine ABS CDO .....	1,989	2,099
Commercial real estate CDO .....	4,694	4,572
RMBS, CMBS, & Other .....	256	246
Cash and cash equivalents .....	428	547
Other assets <sup>1</sup> .....	30	38
Other liabilities <sup>2</sup> .....	(3)	(3)
<b>Net assets .....</b>	<b>22,794</b>	<b>23,500</b>

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

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

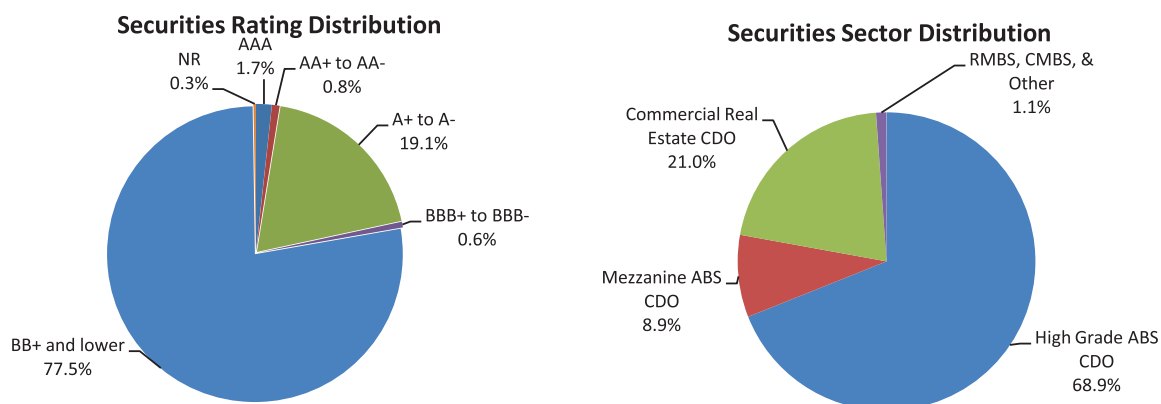
**Table 25. Maiden Lane III LLC Securities Distribution by Sector, Vintage, and Rating**

Percent, as of December 31, 2009

Sector and vintage <sup>1</sup>	Rating						Total
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and lower	Not rated	
High-grade ABS CDO .....	0.0	0.0	0.0	0.0	68.9	0.0	68.9
Pre-2005 .....	0.0	0.0	0.0	0.0	24.3	0.0	24.3
2005 .....	0.0	0.0	0.0	0.0	30.6	0.0	30.6
2006 .....	0.0	0.0	0.0	0.0	7.3	0.0	7.3
2007 .....	0.0	0.0	0.0	0.0	6.7	0.0	6.7
Mezzanine ABS CDO .....	0.0	0.2	0.0	0.5	8.0	0.3	8.9
Pre-2005 .....	0.0	0.2	0.0	0.5	4.4	0.3	5.4
2005 .....	0.0	0.0	0.0	0.0	2.8	0.0	2.8
2006 .....	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2007 .....	0.0	0.0	0.0	0.0	0.7	0.0	0.7
Commercial real estate CDO ...	1.5	0.5	18.9	0.0	0.0	0.0	21.0
Pre-2005 .....	1.5	0.5	3.1	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	15.8	0.0	0.0	0.0	15.8
RMBS, CMBS, and other .....	0.2	0.2	0.1	0.1	0.6	0.0	1.1
Pre-2005 .....	0.0	0.0	0.0	0.0	0.1	0.0	0.2
2005 .....	0.1	0.1	0.1	0.1	0.4	0.0	0.9
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
<b>Total .....</b>	<b>1.7</b>	<b>0.8</b>	<b>19.1</b>	<b>0.6</b>	<b>77.5</b>	<b>0.3</b>	<b>100.0</b>

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 December 31, 2009**

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 December 31, 2009, in tables 23 through 25 and figure 5. This information is updated on a quarterly basis.

## *Federal Reserve Banks' Financial Tables*

### **Quarterly Developments**

- Total Reserve Bank assets as of December 31, 2009, were \$2.2 trillion, which represents a decrease of \$11 billion from the previous year. Although the level of total Reserve Bank assets did not change significantly, the composition of the balance sheet changed notably. The Reserve Banks reported income of \$53.4 billion in the year ended December 31, 2009, up \$17.9 billion from the prior year. Total comprehensive income included interest earnings of \$20.4 billion on the federal agency and government-sponsored enterprise (GSE) mortgage-backed securities (MBS) holdings, \$22.9 billion on holdings of U.S. Treasury securities, and \$5.5 billion in interest income on loans to depository institutions and others. The consolidated LLCs contributed to the Reserve Banks' comprehensive income in 2009, with net earnings of \$5.6 billion for the year ended December 31, 2009. The Federal Reserve System financial statements are available on the Federal Reserve Board's website at [www.federalreserve.gov/monetarypolicy/bst\\_fedfinancials.htm](http://www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm).
- The average daily balance of Federal Reserve System Open Market Account (SOMA) holdings was approximately \$1.4 trillion during 2009, as presented in table 27. Net earnings from the portfolio amounted to approximately \$48.8 billion; most of the earnings were attributable to interest income on U.S. Treasury securities and federal agency and GSE MBS.
- As presented in table 28, interest earnings from Federal Reserve lending programs during 2009 amounted to approximately \$5.5 billion; interest earned on Term Auction Facility (TAF) loans and on credit extended to American International Group, Inc. (AIG) accounted for most of the total.
- Net income, including changes in valuation, for the Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs was approximately \$1.1 billion, \$0.2 billion, and \$1.3 billion, respectively, in 2009. Net income for the Commercial Paper Funding Facility (CPFF) LLC was approximately \$3.6 billion in 2009.

### **Background**

The Federal Reserve Banks prepared annual financial statements reflecting balances as of December 31, 2009, 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 an independent auditing firm 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 auditing firm retained by the Board's Office of Inspector General (OIG). The audit firm also provides a report on compliance and on internal control over financial reporting in accordance with government auditing standards. The OIG 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](http://www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm). In this report, the Federal Reserve prepares unaudited quarterly updates to tables included in the Annual Report.

### **Combined Statement of Income and Comprehensive Income**

Table 26 presents unaudited combined Reserve Bank income and expense information for the year 2009. Tables 27 through 29 present information for the SOMA portfolio, the Federal Reserve loan programs, and the variable interest entities—the CPFF LLC; Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs; and TALF LLC—for the year. These tables are updated quarterly.

**Table 26. Federal Reserve Banks' Combined Statement of Income and Comprehensive Income**

Millions of dollars

	January 1, 2009 – December 31, 2009
Interest income:	
Loans to depository institutions (refer to table 28) .....	990
Other loans (refer to table 28) .....	4,519
System Open Market Account (refer to table 27) .....	47,806
Consolidated variable interest entities (refer to table 29):	
Investments held by consolidated variable interest entities:	
Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs .....	5,596
Commercial Paper Funding Facility LLC .....	4,224
Total interest income .....	63,135
Interest expense:	
System Open Market Account (refer to table 27) .....	98
Depository institution deposits .....	2,183
Beneficial interest in consolidated variable interest entities (refer to table 29) .....	267
Total interest expense .....	2,548
Provision for loan restructuring (refer to table 28) <sup>1</sup> .....	(2,621)
Net interest income, after provision for loan restricting .....	57,966
Non-interest income (loss):	
Other loans unrealized gains <sup>2</sup> .....	557
System Open Market Account—realized and unrealized losses, net (refer to table 27) .....	1,051
Investments held by consolidated variable interest entities gains (losses), net (refer to table 29):	
Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs .....	(1,945)
Commercial Paper Funding Facility LLC .....	8
TALF LLC <sup>2</sup> .....	0
Beneficial interest in consolidated variable interest entities gains (losses), net .....	(1,903)
Dividends on preferred securities .....	106
Income from services .....	663
Reimbursable services to government agencies .....	450
Other income .....	443
Total non-interest (loss) .....	(570)
Operating expenses:	
Salaries and other benefits .....	2,802
Occupancy expense .....	280
Equipment expense .....	183
Assessments by the Board of Governors .....	888
Professional fees related to consolidated variable interest entities (refer to table 29) .....	125
Other expenses .....	702
Total operating expenses .....	4,980
Net income prior to distribution .....	52,416
Change in funded status of benefit plans <sup>3</sup> .....	1,007
Comprehensive income prior to distribution .....	53,423
Distribution of comprehensive income:	
Dividends paid to member banks .....	1,428
Transferred to surplus and change in accumulated other comprehensive income (loss) .....	4,564
Memo: Distributions to U.S. Treasury (interest on Federal Reserve notes) <sup>4</sup> .....	47,431

Note: Unaudited.

1. In accordance with GAAP, the AIG revolving credit extension was reduced by an 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. The fair value option was elected for all TALF loans. Recording all TALF loans at fair value, rather than at the remaining principal amount outstanding, results in consistent accounting treatment among all TALF-related transactions and provides the most appropriate presentation of the TALF program on the financial statements by matching the change in fair value of TALF loans, the related put agreement with the consolidated TALF LLC, and the valuation of the other beneficial interests in TALF LLC.

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

4. 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 is affected by significant losses and increases in capital paid-in at a Reserve Bank, requires that the Reserve Bank retain 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 December 31, 2009, were \$43.8 billion.

## SOMA Financial Summary

Table 27 shows the Federal Reserve's average daily balance of assets and liabilities in the SOMA portfolio for the period from January 1, 2009, through December

31, 2009, the related interest income and expense, and the realized and unrealized gains and losses for the year. U.S. Treasury securities, government-sponsored enterprise (GSE) debt securities, as well as federal agency and GSE mortgage-backed securities (MBS)

**Table 27. SOMA Financial Summary**

Millions of dollars

	January 1, 2009 – December 31, 2009				
	Average daily balance	Interest income (expense)	Realized gains (losses)	Unrealized gains (losses)	Net earnings
<i>SOMA assets</i>					
U.S. Treasury securities <sup>1</sup> .....	659,483	22,873	—	—	22,873
Government-sponsored enterprise debt securities <sup>1</sup> .....	98,093	2,048	—	—	2,048
Federal agency and government-sponsored enterprise mortgage-backed securities <sup>2</sup> .....	473,855	20,407	879	—	21,286
Investments denominated in foreign currencies <sup>3</sup> .....	24,898	296	—	172	468
Central bank liquidity swaps <sup>4</sup> .....	177,688	2,168	—	—	2,168
Securities purchased under agreements to resell .....	3,616	13	—	—	13
Other assets <sup>5</sup> .....	458	1	—	—	1
<b>Total assets</b> .....	<b>1,438,091</b>	<b>47,806</b>	<b>879</b>	<b>172</b>	<b>48,857</b>
<i>SOMA liabilities</i>					
Securities sold under agreements to repurchase .....	67,837	(98)	—	—	(98)
Other liabilities <sup>6</sup> .....	182	0	—	—	0
<b>Total liabilities</b> .....	<b>68,019</b>	<b>(98)</b>	<b>—</b>	<b>—</b>	<b>(98)</b>
<b>SOMA assets and liabilities</b> .....	<b>1,370,072</b>	<b>47,708</b>	<b>879</b>	<b>172</b>	<b>48,759</b>

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

1. Face value, net of unamortized premiums and discounts.

2. 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 and net of premiums and discounts. Does not include unsettled transactions.

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

4. 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.

5. Cash and short-term investments related to the federal agency and government-sponsored enterprise mortgage-backed securities portfolio.

6. Related to the purchases of federal agency and government-sponsored enterprise mortgage-backed securities that the seller fails to deliver on the settlement date.

making up the SOMA portfolio, are recorded at amortized cost on a settlement-date basis. Rather than using a fair value presentation, an amortized cost presentation more appropriately reflects the Reserve Banks' purpose for holding these securities given the Federal Reserve's unique responsibility to conduct monetary policy.

Although the fair value of security holdings can be substantially greater than or less than the recorded value at any point in time, these unrealized gains or losses have no effect on the ability of the Reserve Banks to meet their financial obligations and responsibilities. As of December 31, 2009, the fair value of the U.S. Treasury and GSE debt securities held in the SOMA, excluding accrued interest, was \$1.0 trillion, the fair value of the federal agency and GSE MBS was \$914 billion, and the fair value of investments denominated in foreign currencies was \$25 billion, as determined by reference to quoted prices for identical securities, except for MBS, for which market values are determined using a model-based approach based on observable inputs for similar securities.

The 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 securi-

ties 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 or sale of "to be announced" (TBA) MBS combined with an agreement to sell or purchase TBA MBS on a specified future date, may generate realized gains and losses.

### Loan Programs Financial Summary

Table 28 summarizes the average daily loan balances and interest income of the Federal Reserve for 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

**Table 28. Loan Programs Financial Summary**

Millions of dollars

Loan programs <sup>1</sup>	January 1, 2009 – December 31, 2009			
	Average daily balance <sup>2</sup>	Interest income <sup>3</sup>	Provision for loan restructuring	Total
Primary, secondary, and seasonal credit .....	40,405	204	—	204
Term Auction Facility (TAF) .....	291,487	786	—	786
Total loans to depository institutions .....	331,892	990	—	990
Asset-Backed Commercial Paper Money Market Mutual Fund				
Liquidity Facility (AMLF) .....	7,653	73	—	73
Primary Dealer Credit Facility (PDCF) and other broker-dealer credit ..	7,502	36	—	36
Credit extended to American International Group, Inc. (AIG), net .....	39,099	3,996	(2,621)	1,375
Term Asset-Backed Securities Loan Facility (TALF) <sup>4</sup> .....	23,228	414	—	414
Total loans to others .....	77,482	4,519	(2,621)	1,898
<b>Total loan programs</b> .....	<b>409,374</b>	<b>5,509</b>	<b>(2,621)</b>	<b>2,888</b>
Allowance for loan losses .....	—	—	—	—
<b>Total loan programs, net</b> .....	<b>409,374</b>	<b>5,509</b>	<b>(2,621)</b>	<b>2,888</b>

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

1. Does not include loans to consolidated VIEs.

2. Average daily balance includes outstanding principal and capitalized interest net of unamortized deferred commitment fees and allowance for loan restructuring, and excludes undrawn amounts.

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

4. Book value.

**Table 29. Consolidated Variable Interest Entities Financial Summary**

Millions of dollars

Item	CPFF	TALF LLC	ML	ML II	ML III	Total Maiden Lane LLCs
<i>Net portfolio assets of the consolidated LLCs and the net position of FRBNY and subordinated interest holders as of December 31, 2009</i>						
Net portfolio assets <sup>1</sup> .....	14,233	298	28,140	15,912	22,797	66,849
Liabilities of consolidated LLCs .....	(173)	0	(1,137)	(2)	(3)	(1,142)
Net portfolio assets available .....	14,060	298	27,003	15,910	22,794	65,707
Loans extended to the consolidated LLCs by FRBNY <sup>2</sup> .....	9,379	0	29,233	16,005	18,500	63,738
Other beneficial interests <sup>2,3</sup> .....	0	102	1,248	1,037	5,193	7,478
Total loans and other beneficial interests .....	9,379	102	30,481	17,042	23,693	71,216
<i>Cumulative change in net assets since the inception of the programs</i>						
Allocated to FRBNY .....	4,681	298	(2,230)	(95)	0	(2,325)
Allocated to other beneficial interests .....	0	0	(1,248)	(1,037)	(899)	(3,184)
Cumulative change in net assets .....	4,681	298	(3,478)	(1,132)	(899)	(5,509)
<i>Summary of consolidated VIE net income for the current year through December 31, 2009, including a reconciliation of total consolidated VIE net income to the consolidated VIE net income recorded by FRBNY</i>						
Portfolio interest income <sup>4</sup> .....	4,224	0	1,476	1,088	3,032	5,596
Interest expense on loans extended by FRBNY <sup>5</sup> .....	(598)	0	(146)	(238)	(296)	(680)
Interest expense—other .....	0	(2)	(61)	(33)	(171)	(265)
Portfolio holdings gains (losses) .....	8	0	(102)	(604)	(1,239)	(1,945)
Professional fees .....	(30)	(1)	(55)	(12)	(27)	(94)
Net income (loss) of consolidated LLCs .....	3,604	(3)	1,112	201	1,299	2,612
Less: Net income (loss) allocated to other beneficial interests .....	0	699*	(61)	(34)	1,299	1,204
Net income (loss) allocated to FRBNY .....	3,604	(702)	1,173	235	0	1,408
Add: Interest expense on loans extended by FRBNY, eliminated in consolidation <sup>5</sup> .....	598	0	146	238	296	680
Net income (loss) recorded by FRBNY .....	4,202	(702)**	1,319	473	296	2,088

Note: Unaudited.

\* Represents the amount of TALF LLC's income allocated to the U.S. Treasury.

\*\* In addition to the TALF LLC net loss of \$702 million, the FRBNY reported \$1,025 million of income on TALF loans during the year ended December 31, 2009. Earnings on TALF loans include interest income of \$414 million, gains on the valuation of loans of \$557 million, and administrative fees of \$54 million.

1. CPFF LLC commercial paper holdings are recorded at book value; other holdings are recorded at fair value. TALF LLC, 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 TALF LLC is the U.S. Treasury. JPMC is the beneficial interest holder for Maiden Lane LLC. AIG is the beneficial interest holder for Maiden Lane II and Maiden Lane III LLCs.

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.



the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF), the Primary Dealer Credit Facility (PDCF), credit extended to American International Group, Inc. (AIG), and the Term Asset-Backed Securities Loan Facility (TALF). The Reserve Banks record amounts funded under all these programs as loans. Interest income from these loan programs were about \$5.5 billion during 2009. All loans must be fully collateralized to the satisfaction of the lending Reserve Bank, with an appropriate haircut applied to the collateral. At December 31, 2009, no loans were impaired, and an allowance for loan losses was not required.

### **Consolidated Variable Interest Entities (VIEs) Financial Summary**

Table 29 summarizes the assets and liabilities of various consolidated VIEs previously discussed in this report. It also summarizes the net position of senior and subordinated interest holders and the allocation of the change in net assets to interest holders. The FRBNY is the sole beneficiary of CPFF LLC, the sole and managing member of TALF 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, Maiden Lane III LLC, and TALF 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 December 31, 2009.

## Appendix A

### 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 Term Securities Lending Facility (TSLF), Primary Dealer Credit Facility (PDCF), Commercial Paper Funding Facility (CPFF), and the Asset-Backed Commercial Paper Money Market Liquidity Facility (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 the end of 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 Term Asset-Backed Securities Loan Facility (TALF), to American International Group, Inc. (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 was 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 March 31, 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 asset-backed securities (ABS) and commercial mortgage-backed securities (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 accor-



dance 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 March 31, 2010—as shown in table 1 of this report and reported in the H.4.1 release for that date—are based on quarterly revaluations as of December 31, 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 and Preferred Interests Relating to 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 assets of the two SPVs, AIA Aurora LLC and ALICO Holdings LLC (including any noncash consideration that may be received in connection with the sale of the assets of the AIA or ALICO SPVs), 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 held by the FRBNY in the AIA and ALICO SPVs. However, based on the substantial assets and operations supporting repayment of the loan or redemption of the preferred interests, the terms of the agreements entered into by AIG for the sale of American International Assurance Company (AIA) and American Life Insurance Company (ALICO), 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 December 31, 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 the face value of the preferred interests in the AIA and ALICO SPVs, plus accrued dividends, will be received. Accordingly, the Federal Reserve anticipates that the facility will not result in any net loss to the Federal Reserve or taxpayers.

## Appendix B

### Information about Closed and Expired Credit and Liquidity Facilities and Programs

During the financial crisis that emerged during the summer of 2007, the Federal Reserve took a number of important steps aimed at providing liquidity to important financial markets and institutions to support overall financial stability. Financial stability is a critical prerequisite for achieving sustainable economic growth, and all of the Federal Reserve's actions were directed toward achieving the Federal Reserve's statutory monetary policy objectives. Specifically, the Federal Reserve implemented a number of programs designed to support the liquidity of financial institutions and foster improved conditions in financial markets, and also extended credit to certain specific institutions and committed to extend credit to support systemically important financial firms.

In light of ongoing improvements in the functioning of financial markets, many of the facilities and programs established to help address the financial crisis have closed or expired. Specifically, on February 1, 2010, 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). The temporary liquidity swap arrangements between the Federal Reserve and other central banks also expired on February 1, 2010.

Background information about the temporary liquidity swap arrangements, the PDCF, the TSLF, and the AMLF, previously included in the body of this report, as well as information about the support provided to Citigroup and Bank of America, is presented in this appendix. Historical data related to these facilities, previously reported on the H.4.1 statistical release, "Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks," which includes the weekly publication of the Federal Reserve's balance sheet, is available through the Data Download Program (available at [www.federalreserve.gov/datadownload/](http://www.federalreserve.gov/datadownload/)). The Data Download Program provides interactive access to Federal Reserve statistical data in a variety of formats.

### Temporary Liquidity Arrangements with Foreign Central Banks

#### *Liquidity Swaps*

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 Federal Reserve Bank of New York (FRBNY) entered into agreements to establish temporary reciprocal currency arrangements (central bank liquidity swap lines) with a number of foreign central banks (FCBs). 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 Federal Open Market Committee (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 FCBs: 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 consisted of two transactions. When an FCB drew on its swap line with the FRBNY, the FCB would sell a specified amount of its currency to the FRBNY in exchange for dollars at the prevailing market exchange rate. The FRBNY held the foreign currency in an account at the FCB. The dollars that the FRBNY provided were then deposited in an account that the FCB maintained at the FRBNY. At the same time, the FRBNY and the FCB entered into a

binding agreement for a second transaction that obligated the FCB to buy back its currency on a specified future date at the same exchange rate. The second transaction unwound the first at the same exchange rate used in the initial transaction; as a result, the recorded value of the foreign currency amounts was not affected by changes in the market exchange rate. At the conclusion of the second transaction, the FCB compensated the FRBNY at a market-based rate.

When the FCB lent the dollars it obtained by drawing on its swap line to institutions in its jurisdiction, the dollars were transferred from the FCB account at the FRBNY to the account of the bank that the borrowing institution used to clear its dollar transactions. The FCB was obligated to return the dollars to the FRBNY under the terms of the agreement, and the FRBNY was not a counterparty to the loan extended by the FCB. The FCB bore the credit risk associated with the loans it made to institutions in its jurisdiction.

The foreign currency that the Federal Reserve acquired in these transactions was recorded as an asset on the Federal Reserve's balance sheet. Dollar liquidity swaps had maturities ranging from overnight to three months.

#### *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. These foreign-currency swap lines provided the Federal Reserve with the ability to address financial strains by providing foreign currency denominated 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 Primary Dealers*

On March 16, 2008, the Federal Reserve announced the creation of the Primary Dealer Credit Facility (PDCF), an overnight loan facility that provided fund-

ing 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. There was no borrowing at the PDCF after mid-May 2009. The Federal Reserve closed the PDCF on February 1, 2010. All loans extended under this facility were repaid in full, with interest, in accordance with the terms of the facility.

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.

On March 11, 2008, the Federal Reserve announced the creation of the TSLF. Under the TSLF, the FRBNY lent Treasury securities to primary dealers for 28 days against eligible collateral in two types of auctions. For “Schedule 1” auctions, the eligible collateral consisted of Treasury securities, agency securities, and agency-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.

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. 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.

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. Since mid-August 2009, borrowing from the TSLF had remained unchanged at zero. The January 7, 2010, TSLF Schedule 2 auction was the last auction conducted prior to the closure of the 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.

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

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 had to experience 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.

*AMLF 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.

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. The AMLF was closed on February 1, 2010. All loans made under the facility were repaid in full, with interest, in accordance with the terms of the facility.

#### *Lending in Support of Specific Institutions*

During the financial crisis, the Federal Reserve committed to provide credit, if necessary, to support Citigroup Inc. (Citigroup) and Bank of America Corporation (Bank of America), two important financial firms, as part of a package of supports for these institutions



made available by the Treasury Department, the Federal Deposit Insurance Corporation (FDIC), and the Federal Reserve.

#### *Citigroup*

On November 23, 2008, the Treasury, the Federal Reserve, and the 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](http://www.federalreserve.gov/monetarypolicy/bst_supportspecific.htm)). The FRBNY did not extend 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. 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](http://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.