



# Quarterly Report on Federal Reserve Balance Sheet Developments

November 2012

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM





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# Purpose

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

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

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

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

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



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# Abbreviations

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



# Overview

## Recent Developments

The Overview section of this report highlights recent developments in the operations of the Federal Reserve's monetary policy tools, and presents data describing changes in the assets, liabilities, and total capital of the Federal Reserve System as of October 31, 2012.

### FOMC Announces Purchases of Additional MBS

- On September 13, 2012, the Federal Open Market Committee (FOMC) announced that in order to support a stronger economic recovery and to help ensure that inflation, over time, is at a rate consistent with its statutory mandate, it would increase policy accommodation by purchasing additional agency-guaranteed mortgage-backed securities (MBS) at a pace of \$40 billion per month. Also, the FOMC decided to continue through the end of the year its program to extend the average maturity of its holdings of securities as announced in June, and to maintain its existing policy of reinvesting principal payments from its holdings of agency debt and agency MBS in agency MBS. These actions, which together will increase the Federal Reserve's holdings of longer-term securities by about \$85 billion each month through the end of the year, should put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative. More information is available on the Federal Reserve Board's website at [www.federalreserve.gov/newsevents/press/monetary/20120913a.htm](http://www.federalreserve.gov/newsevents/press/monetary/20120913a.htm).

### Federal Reserve Releases Transaction-Level Information on Discount Window Borrowings and Open Market Operations

- On September 28, 2012, the Federal Reserve began the regular publication of detailed transaction-level information on discount window borrowing and

open market operations. The data in the initial release covers transactions between July 22, 2010, and September 30, 2010, and is available at [www.newyorkfed.org/markets/OMO\\_transaction\\_data.html](http://www.newyorkfed.org/markets/OMO_transaction_data.html). In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, this information will be made available on a quarterly basis and with an approximately two-year lag. The transaction-level detail supplements the extensive aggregate information the Federal Reserve has previously provided in weekly, monthly, and quarterly reports.

### Federal Reserve Board Publishes Quarterly Financial Report

- On November 29, 2012, the Federal Reserve Board published the "Federal Reserve Banks Combined Quarterly Financial Report" for the third quarter of 2012, which includes summary information on the combined financial position and results of operations of the 12 Reserve Banks and several consolidated variable interest entities. All financial information included in the report is unaudited. The report is available on the Federal Reserve Board's website at [www.federalreserve.gov/monetarypolicy/bst\\_fedfinancials.htm#quarterly](http://www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm#quarterly).

### Federal Reserve Conducts Small-Value Operations

- Beginning on September 6, 2012, the Federal Reserve Bank of New York (FRBNY) conducted a series of small-scale, real-value, reverse repurchase transactions (reverse repos) using all eligible collateral types. The first set of operations in the series was conducted using only the reverse repo counterparties announced in April 2012; subsequent operations were open to all eligible reverse repo counterparties. These types of transactions are conducted as a matter of prudent planning by the Federal Reserve and are designed to have no material impact on the availability of reserves or on market rates. They do not represent a change in the

stance of monetary policy and no inference should be drawn about the timing of any change in the stance of monetary policy in the future. The results of these operations are available on the FRBNY's website at [www.newyorkfed.org/markets/omo/dmm/temp.cfm](http://www.newyorkfed.org/markets/omo/dmm/temp.cfm).

- On September 10, 2012, and November 5, 2012, the Federal Reserve conducted auctions of \$3 billion of 28-day term deposits through the Term Deposit Facility (TDF). The ongoing small-value TDF offerings are a matter of prudent planning and have no implications for the near-term conduct of monetary policy. Additional information about term deposits, auction results, and future small-value offerings is available through the TDF Resource Center at [www.frbservices.org/centralbank/term\\_deposit\\_facility.html](http://www.frbservices.org/centralbank/term_deposit_facility.html).

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

Table 1 reports selected assets and liabilities and total capital of the Federal Reserve System and presents the change in these components over selected intervals. The Federal Reserve publishes its complete 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," available at [www.federalreserve.gov/releases/h41/](http://www.federalreserve.gov/releases/h41/).

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

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

Billions of dollars

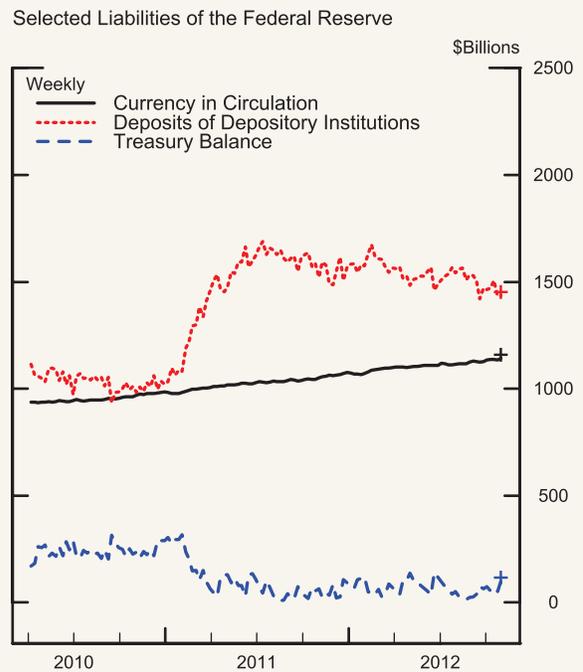
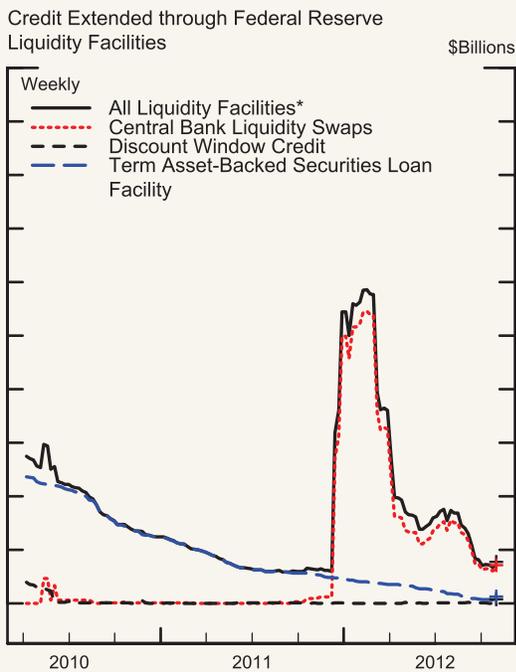
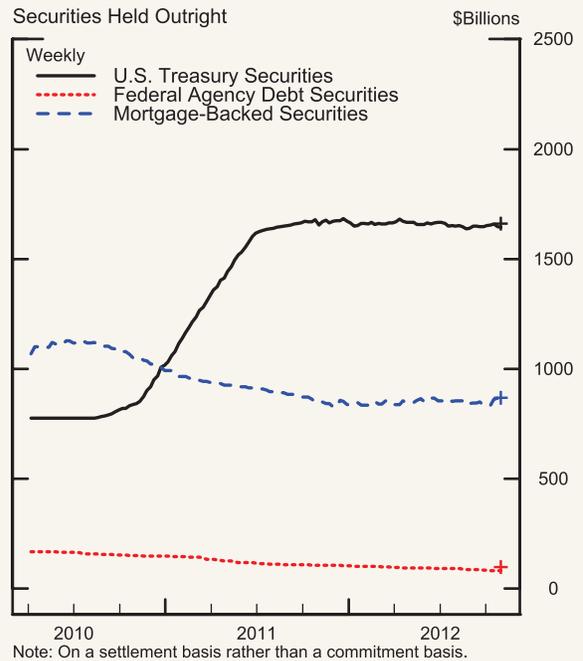
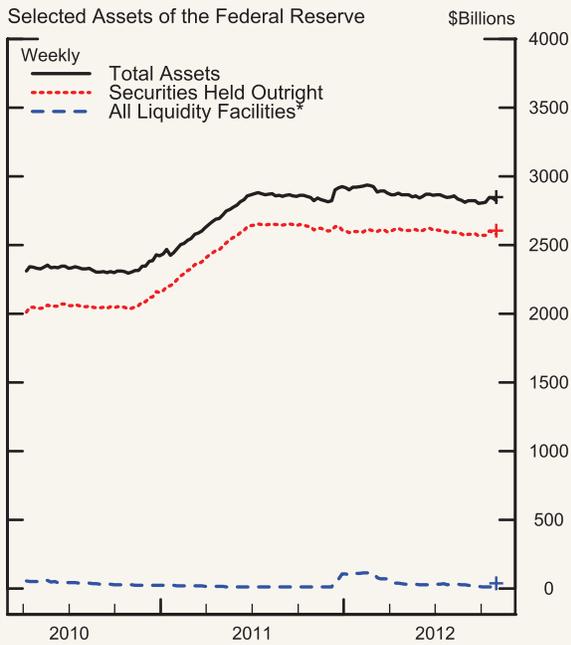
Item	Current October 31, 2012	Change from July 25, 2012	Change from November 2, 2011
<b>Total assets</b>	<b>2,825</b>	<b>-24</b>	<b>-*</b>
<b>Selected assets</b>			
Securities held outright	2,579	-17	-32
U.S. Treasury securities <sup>1</sup>	1,645	-6	-9
Federal agency debt securities <sup>1</sup>	82	-9	-26
Mortgage-backed securities <sup>2</sup>	852	-1	+3
Memo: Overnight securities lending <sup>3</sup>	11	+1	-2
Memo: Net commitments to purchase mortgage-backed securities <sup>4</sup>	105	+74	+79
Lending to depository institutions <sup>5</sup>	*	-*	-*
Central bank liquidity swaps <sup>6</sup>	13	-14	+11
Lending through the Term Asset-Backed Securities Loan Facility <sup>7</sup>	1	-2	-10
Net portfolio holdings of TALF LLC <sup>8</sup>	1	+	+
Support for specific institutions	2	-8	-38
Net portfolio holdings of Maiden Lane LLC <sup>9</sup>	2	-1	-11
Net portfolio holdings of Maiden Lane II LLC <sup>9</sup>	*	+	-9
Net portfolio holdings of Maiden Lane III LLC <sup>9</sup>	*	-7	-18
<b>Total liabilities</b>	<b>2,770</b>	<b>-24</b>	<b>-3</b>
<b>Selected liabilities</b>			
Federal Reserve notes in circulation	1,100	+30	+92
Term deposits held by depository institutions	0	-3	0
Other deposits held by depository institutions	1,434	-133	-88
U.S. Treasury, general account	100	+62	+36
U.S. Treasury, supplementary financing account	0	0	0
Other deposits	18	+7	-19
<b>Total capital</b>	<b>55</b>	<b>+</b>	<b>+3</b>

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

\* Less than \$500 million.

<sup>1</sup> Face value.<sup>2</sup> Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value, which is the remaining principal balance of the underlying mortgages. Does not include unsettled transactions.<sup>3</sup> Securities loans under the overnight facility are off-balance-sheet transactions. These loans are shown here as a memo item to indicate the portion of securities held outright that have been lent through this program.<sup>4</sup> Current face value. Includes commitments associated with outright purchases, dollar rolls, and coupon swaps.<sup>5</sup> Total of primary, secondary, and seasonal credit.<sup>6</sup> Dollar value of the foreign currency held under these agreements valued at the exchange rate to be used when the foreign currency is returned to the foreign central bank.<sup>7</sup> Book value.<sup>8</sup> As of October 31, 2012, TALF LLC had purchased no assets from the FRBNY.<sup>9</sup> Fair value, reflecting values as of September 30, 2012. 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 10/31/2012.

\* All Liquidity Facilities includes primary credit, secondary credit, seasonal credit, Term Asset-Backed Securities Loan Facility, and central bank liquidity swaps.

# Monetary Policy Tools

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

The Federal Reserve conducts open market operations (OMOs) in domestic markets. OMOs can be permanent, including the outright purchase and sale of Treasury securities, government-sponsored enterprise (GSE) debt securities, and federal agency and GSE MBS; or temporary, including the purchase of these securities under agreements to resell, and the sale of these securities under agreements to repurchase. OMOs are conducted by the Trading Desk at the FRBNY, which acts as agent for the FOMC. The authority to conduct OMOs is granted under Section 14 of the Federal Reserve Act, and the range of securities that the Federal Reserve is authorized to purchase and sell is relatively limited. The FRBNY's traditional counterparties for OMOs are the primary dealers with which the FRBNY trades U.S. government and select other securities.<sup>1</sup> OMOs have been used historically to adjust the supply of reserve balances so as to keep the federal funds rate around the target federal funds rate established by the FOMC. In recent years, the Federal Reserve has also developed other tools to strengthen its control of short-term interest rates, and to reduce the large quantity of reserves held by the banking system when needed.

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

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

## Permanent Open Market Operations

### Recent Developments

- On September 13, 2012, the FOMC announced that in order to support a stronger economic recovery and to help ensure that inflation, over time, is at a rate consistent with its statutory mandate, it would increase policy accommodation by purchasing additional agency-guaranteed MBS at a pace of \$40 billion per month. Also, the FOMC decided to continue through the end of the year its program to extend the average maturity of its holdings of securities as announced in June, and to maintain its existing policy of reinvesting principal payments from its holdings of agency debt and agency MBS in agency MBS. These actions, which together will increase the Federal Reserve's holdings of longer-term securities by about \$85 billion each month through the end of the year, should put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative. More information is available on the Federal Reserve Board's website at [www.federalreserve.gov/newsevents/press/monetary/20120913a.htm](http://www.federalreserve.gov/newsevents/press/monetary/20120913a.htm).
- Between July 25 and October 31, 2012, the System Open Market Account's (SOMA's) holdings of Treasury securities fell slightly. As purchases, sales, and redemptions of Treasury securities occur under the maturity extension program continuation announced by the FOMC on June 20, 2012, holdings may fluctuate modestly due to differences in the amounts and settlement dates for individual purchases, sales, and redemptions.
- The SOMA's holdings of agency debt also declined between July 25 and October 31, 2012, due to principal payments, while holdings of agency MBS were little changed. As principal payments from agency debt and MBS are reinvested in agency MBS under the FOMC's reinvestment policy announced on September 21, 2011, holdings of agency MBS may vary modestly due to differences

between principal payment dates and settlement dates for purchases. As operations began under the FOMC's MBS purchase plan announced on September 13, 2012, net commitments to purchase MBS rose sharply, as shown in table 1. The SOMA's holdings of MBS will increase as the purchase commitments are settled.

- On September 28, 2012, the Federal Reserve began the regular publication of transaction-level information on individual open market transactions. The data in the initial release covers transactions between July 22, 2010, and September 30, 2010, and is available at [www.newyorkfed.org/markets/OMO\\_transaction\\_data.html](http://www.newyorkfed.org/markets/OMO_transaction_data.html). In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, this information will be made available on a quarterly basis and with an approximately two-year lag. The transaction-level detail supplements the extensive aggregate information the Federal Reserve has previously provided in weekly, monthly, and quarterly reports.

## Background

Permanent OMOs are outright purchases or sales of securities for the SOMA, the Federal Reserve's portfolio. Permanent OMOs traditionally have been used to accommodate the longer-term factors driving the expansion of the Federal Reserve's balance sheet, principally the trend growth of currency in circulation. More recently, the expansion of SOMA securities holdings has been driven by large-scale asset purchase programs (LSAPs), which are described in more detail below. The composition of the SOMA is presented in table 2. The Federal Reserve's outright holdings of securities are reported weekly in tables 1, 3, 8, and 9 of the H.4.1 statistical release.

## Large-Scale Asset Purchase Programs

From March 2009 through March 2010, the Federal Reserve purchased direct obligations of the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Home Loan Banks; MBS guaranteed by Fannie Mae, Freddie Mac, and the Government National Mortgage Association (Ginnie Mae); and longer-term Treasury securities.<sup>2</sup> More information on these actions is available at [www.federalreserve.gov/monetarypolicy/bst\\_openmarketops.htm](http://www.federalreserve.gov/monetarypolicy/bst_openmarketops.htm).

<sup>2</sup> The settlement of all remaining outstanding MBS from these purchases was completed in August 2010.

**Table 2. Domestic SOMA securities holdings**

Billions of dollars

Security type	Total par value as of October 31, 2012	Total par value as of July 25, 2012
U.S. Treasury bills	0	6
U.S. Treasury notes and bonds, nominal	1,563	1,567
U.S. Treasury notes and bonds, inflation-indexed <sup>1</sup>	82	79
Federal agency debt securities <sup>2</sup>	82	91
MBS <sup>3</sup>	852	853
<b>Total SOMA securities holdings</b>	<b>2,579</b>	<b>2,596</b>

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

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

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

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

On November 3, 2010, the FOMC decided to expand its holdings of securities and announced that in order to promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with its mandate, it intended to purchase a further \$600 billion of longer-term Treasury securities by the end of the second quarter of 2011. The last purchase under this program occurred on June 30, 2011.

On August 10, 2010, the FOMC announced that it would reinvest principal payments from agency debt and agency MBS in longer-term Treasury securities in order to maintain domestic securities holdings in the SOMA portfolio at the level intended under the LSAPs. On September 21, 2011, the FOMC announced that it would begin reinvesting these principal payments in agency MBS. The Federal Reserve also usually rolls over maturing Treasury securities into new issues at auction; however, on June 20, 2012, that policy was suspended by the FOMC for the duration of the maturity extension program described below.

## Maturity Extension Program

On September 21, 2011, the FOMC announced that it would extend the average maturity of its holdings of securities—by purchasing \$400 billion par of Treasury securities with remaining maturities of 6 years to 30 years and selling or redeeming an equal par amount of Treasury securities with remaining maturities of 3 years or less—by the end of

June 2012. The maturity extension program is intended to put downward pressure on longer-term interest rates and to help make broader financial conditions more accommodative. Additional information is available at [www.newyorkfed.org/markets/opolicy/operating\\_policy\\_110921.html](http://www.newyorkfed.org/markets/opolicy/operating_policy_110921.html) and [www.newyorkfed.org/markets/pomo\\_landing.html](http://www.newyorkfed.org/markets/pomo_landing.html).

On June 20, 2012, the FOMC announced that it would continue through the end of the 2012 its program to extend the average maturity of its holdings of securities. The continuation of the maturity extension program will proceed at the previous pace and result in the purchase, as well as the sale and redemption, of about \$267 billion in Treasury securities by the end of 2012.

## Temporary Open Market Operations and Other Reserve Management Tools

### Recent Developments

- Beginning on September 6, 2012, the FRBNY conducted a series of small-scale, real-value, reverse repos using all eligible collateral types. The first set of operations in the series was conducted using only the reverse repo counterparties announced in April 2012; subsequent operations were open to all eligible reverse repo counterparties. These types of transactions are conducted as a matter of prudent planning by the Federal Reserve and are designed to have no material impact on the availability of reserves or on market rates. They do not represent a change in the stance of monetary policy and no inference should be drawn about the timing of any change in the stance of monetary policy in the future. The results of these operations are available on the FRBNY's website at [www.newyorkfed.org/markets/omo/dmm/temp.cfm](http://www.newyorkfed.org/markets/omo/dmm/temp.cfm).
- On September 10, 2012, and November 5, 2012, the Federal Reserve conducted auctions of \$3 billion of 28-day term deposits through the TDF. The ongoing small-value TDF offerings are a matter of prudent planning and have no implications for the near-term conduct of monetary policy. Additional information about term deposits, auction results, and future small-value offerings is available through the TDF Resource Center at [www.frb services.org/centralbank/term\\_deposit\\_facility.html](http://www.frb services.org/centralbank/term_deposit_facility.html).

## Repos and Reverse Repos

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

Under a reverse repo, the Trading Desk sells a security under an agreement to repurchase that security in the future. A reverse repo is the economic equivalent of collateralized borrowing. Reverse repos are a tool that could be used to support a reduction in monetary accommodation at the appropriate time.<sup>3</sup> Amounts outstanding under repos and reverse repos are reported weekly in tables 1, 2, 8, and 9 of the H.4.1 statistical release.

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

### Expanded Counterparties for Reverse Repos

Since late 2009, the FRBNY has taken steps to expand the types of counterparties for reverse repos to include entities other than primary dealers. This initiative is intended to enhance the Federal Reserve's capacity to conduct large-scale reverse repo operations to drain reserves beyond what could likely be conducted through primary dealers. The additional counterparties are not eligible to participate in transactions conducted by the FRBNY other than reverse repos.

To date, the FRBNY has initiated three waves of counterparty expansions aimed at domestic money market funds. With each wave, the set of eligibility criteria was broadened to allow more and smaller money market funds to participate as counterparties.

<sup>3</sup> Reverse repos may also be executed with foreign official and international account holders as part of a service offering.

In addition, on July 27, 2011, the FRBNY announced that it had accepted two GSEs—Freddie Mac and Fannie Mae—as reverse repo counterparties. On December 1, 2011, and April 30, 2012, the FRBNY announced that several banks had been accepted as reverse repo counterparties. On August 16, 2012, the FRBNY released another round of criteria for the acceptance of banks, savings associations, GSEs, and domestic money market funds as counterparties.

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

### Small-Value Repo and Reverse Repo Transactions

The FRBNY periodically conducts small-scale, real-value triparty repo and reverse repo transactions to ensure operational readiness at the Federal Reserve, the major clearing banks, the primary dealers, and other counterparties. The transactions have no material impact on the availability of reserves or on market rates, and are a matter of prudent advance planning by the Federal Reserve. They do not represent any change in the stance of monetary policy, and no inference should be drawn about the timing of any change in the stance of monetary policy in the future.

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

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

Additional details and the results of these operations are available on the FRBNY website at

[www.newyorkfed.org/markets/omo/dmm/temp.cfm](http://www.newyorkfed.org/markets/omo/dmm/temp.cfm).

The outstanding amounts of repos and reverse repos are reported weekly in tables 1, 2, 8, and 9 of the H.4.1 statistical release.

### Term Deposit Facility

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

TDF offerings generally include both a competitive auction, in which eligible institutions bid to place deposits, and a noncompetitive bid option, which allows institutions to place small deposits at the rate set in the associated auction.

Beginning in June 2010, the Federal Reserve has periodically conducted small-value TDF offerings as a matter of prudent planning. These offerings have no implications for the near-term conduct of monetary policy. Additional information about term deposits, auction results, and future small-value offerings is available through the TDF Resource Center at [www.frb-services.org/centralbank/term\\_deposit\\_facility.html](http://www.frb-services.org/centralbank/term_deposit_facility.html).

### Discount Window Lending

#### Recent Developments

- Credit provided to depository institutions through the discount window remains generally around the levels seen prior to 2007. As presented in table 5, the lendable value of collateral pledged by depository institutions with discount window loans outstanding on October 31, 2012, was \$0.5 billion; discount window credit outstanding on that date amounted to \$0.1 billion.
- On September 28, 2012, the Federal Reserve began the regular publication of detailed information on individual discount window loans. The data in the initial release covers loans made between July 22,

2010, and September 30, 2010, and is available at [www.federalreserve.gov/newsevents/reform\\_quarterly\\_transaction.htm](http://www.federalreserve.gov/newsevents/reform_quarterly_transaction.htm). In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, this information will be made available on a quarterly basis and with an approximately two-year lag. This detailed information supplements the extensive aggregate information the Federal Reserve has previously provided in weekly, monthly, and quarterly reports.

## Background

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

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

The Federal Reserve publicly discloses certain information about every discount window loan approximately two years after the loan is extended. The disclosure includes the name and identifying details of the depository institution, the amount borrowed, the interest rate paid, and information identifying the types and amount of collateral pledged. This information is available on the Federal Reserve's public website at [www.federalreserve.gov/newsevents/reform\\_quarterly\\_transaction.htm](http://www.federalreserve.gov/newsevents/reform_quarterly_transaction.htm).

During the financial crisis, the Federal Reserve modified the terms and conditions of the discount window lending programs in order to promote orderly

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

Daily average borrowing for each class of borrower over five weeks ending October 31, 2012

Type and size of borrower	Average number of borrowers <sup>1</sup>	Average borrowing (\$ billions) <sup>2</sup>
<b>Commercial banks<sup>3</sup></b>		
Assets: more than \$50 billion	*	**
Assets: \$5 billion to \$50 billion	*	**
Assets: \$250 million to \$5 billion	3	**
Assets: less than \$250 million	22	0.1
<b>Thrift institutions and credit unions</b>	2	**
<b>Total</b>	<b>27</b>	<b>0.1</b>

Note: Unaudited. Includes primary, secondary, and seasonal credit. Size categories based on total domestic assets from Call Report data as of June 30, 2012.

Components may not sum to totals because of rounding.

\*Fewer than one borrower.

\*\*Less than \$50 million.

<sup>1</sup> Average daily number of depository institutions with credit outstanding. Over this period, a total of 193 institutions borrowed.

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

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

market functioning. Information about these actions is available on the Federal Reserve's public website at [www.federalreserve.gov/monetarypolicy/bst\\_lendingdepository.htm](http://www.federalreserve.gov/monetarypolicy/bst_lendingdepository.htm) and [www.frbdiscountwindow.org](http://www.frbdiscountwindow.org).

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

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

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

For five weeks ending October 31, 2012

Rank by amount of borrowing	Number of borrowers	Daily average borrowing (\$ billions)
Top five	5	*
Next five	5	*
Other	17	*
Total	27	0.1

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

\*Less than \$50 million.

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>4</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 is applied to an internally modeled fair market value estimate. Haircuts reflect credit risk and, for traded assets, the historical volatility of the asset's price and the liquidity of the market in which the asset is traded; the Federal Reserve's haircuts are generally in line with typical market practice. A borrower may be required to pledge additional collateral if its financial condition weakens. Collateral is pledged by depository institutions under the terms and conditions specified in the Federal Reserve Banks' standard lending agreement, Operating Cir-

<sup>4</sup> CAMELS (Capital, Assets, Management, Earnings, Liquidity, and Sensitivity) is a rating system employed by banking regulators to assess the soundness of commercial banks and thrifts. Similar rating systems are used for other types of depository institutions.

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

Billions of dollars, as of October 31, 2012

Type of collateral	Lendable value
<b>Loans</b>	
Commercial	0.2
Residential mortgage	0
Commercial real estate	0.1
Consumer	*
<b>Securities</b>	
U.S. Treasury/agency	*
Municipal	*
Corporate market instruments	*
MBS/CMO: agency-guaranteed	0.2
MBS/CMO: other	0
Asset-backed	0
International (sovereign, agency, municipal, and corporate)	0
<b>Other</b>	
Term Deposit Facility deposits	0
Total	0.5

Note: Unaudited. Collateral pledged by borrowers of primary, secondary, and seasonal credit as of the date shown. Total primary, secondary, and seasonal credit on this date was \$0.1 billion. The lendable value of collateral pledged by all depository institutions, including those without any outstanding loans, was \$1,446 billion. Lendable value is value after application of appropriate haircuts. Components may not sum to total because of rounding.

\*Less than \$50 million.

cular No. 10, available at [www.frbservices.org/files/regulations/pdf/operating\\_circular\\_10.pdf](http://www.frbservices.org/files/regulations/pdf/operating_circular_10.pdf).

Discount window loans are generally made with recourse to the borrower beyond the pledged collateral. Nonetheless, collateral plays an important role in mitigating the credit risk associated with these extensions of credit. The Federal Reserve generally accepts as collateral for discount window loans any assets that meet regulatory standards for sound asset quality. This category of assets includes most 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 very high-quality securities are accepted. An institution may not pledge as collateral any instruments that the institution or its affiliates have issued. To ensure that they can borrow from the Federal Reserve should the need arise, many depository institutions that do not have an outstanding discount window loan nevertheless routinely pledge collateral.

The Federal Reserve periodically reviews its collateral valuation practices. The most recent changes to the lending margins on discount window collateral took

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

As of October 31, 2012

Percent of collateral used	Number of borrowers	Total borrowing (\$ billions)
More than 0 and less than 25	9	*
25 to 50	2	*
50 to 75	4	*
75 to 90	2	*
More than 90	3	*
<b>Total</b>	<b>20</b>	<b>0.1</b>

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

effect on October 19, 2009, and reflected the results of a broad-based review, which began before the financial crisis, of methodology and data sources. For more information on collateral margins, refer to the Discount Window and Payments System Risk public website, [www.frbdiscountwindow.org](http://www.frbdiscountwindow.org). As presented in table 6, depository institutions that borrow from the Federal Reserve generally maintain collateral in excess of their current borrowing levels.

## Liquidity Arrangements with Foreign Central Banks

### Recent Developments

- Between July 25 and October 31, 2012, dollar liquidity extended under the central bank liquidity swap arrangements fell from \$27.2 billion to \$12.9 billion. As presented in table 7, all outstanding swaps are with the European Central Bank. Detailed information about swap operations is available at [www.newyorkfed.org/markets/fxswap/fxswap.cfm](http://www.newyorkfed.org/markets/fxswap/fxswap.cfm).

### Background

Because of the global character of bank funding markets, the Federal Reserve has at times coordinated with other central banks to provide liquidity. In December 2007, the Federal Reserve entered into agreements to establish temporary reciprocal currency arrangements (central bank liquidity swap lines) with the European Central Bank and the Swiss National Bank in order to provide liquidity in U.S. dollars. Subsequently, the FOMC authorized swap lines with the Reserve Bank of Australia, the Banco Central do Brasil, the Bank of Canada, the Bank of Japan, Danmarks Nationalbank, the Bank of Eng-

land, the Bank of Korea, the Banco de Mexico, the Reserve Bank of New Zealand, Norges Bank, the Monetary Authority of Singapore, and Sveriges Riksbank. Two types of temporary swap lines were established: U.S. dollar liquidity swap lines and foreign currency liquidity swap lines. These temporary arrangements expired on February 1, 2010.

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

The FRBNY operates the swap lines under the authority granted under Section 14 of the Federal

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

As of October 31, 2012

Central bank	Total amount outstanding (\$ billions)	Individual transaction amount (\$ billions)	Settlement date	Term	Interest rate
Bank of Canada	—	—	—	—	—
Bank of England	—	—	—	—	—
Bank of Japan	—	—	—	—	—
European Central Bank	12.9	4.5	8/16/2012	84-day	0.64%
		3.7	9/13/2012	84-day	0.63%
		1.1	10/11/2012	84-day	0.64%
		3.6	10/25/2012	7-day	0.65%
Swiss National Bank	—	—	—	—	—
<b>Total</b>	<b>12.9</b>	<b>12.9</b>	<b>—</b>	<b>—</b>	<b>—</b>

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

Reserve Act and in compliance with authorizations, policies, and procedures established by the FOMC.

### U.S. Dollar Liquidity Swaps

U.S. dollar liquidity swaps consist of two transactions. When an FCB draws on its swap line with the FRBNY, the FCB transfers a specified amount of its currency to the FRBNY in exchange for dollars at the prevailing market exchange rate. The FRBNY holds the foreign currency in an account at the FCB. The dollars that the FRBNY provides are then deposited in an account that the FCB maintains at the FRBNY. At the same time, the FRBNY and the FCB enter into a binding agreement for a second transaction that obligates the FCB to return the U.S. dollars and the FRBNY to return the foreign currency on a specified future date at the same exchange rate as the initial transaction. Because the swap transactions will be unwound at the same exchange rate used in the initial transaction, the recorded value of the foreign currency amounts is not affected by changes in the market exchange rate. At the conclusion of the second transaction, the FCB compensates the FRBNY at a market-based interest rate.

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

The foreign currency that the Federal Reserve acquires in these transactions is recorded as an asset on the Federal Reserve's balance sheet. In tables 1, 8, and 9 of the weekly H.4.1 statistical release, the dollar value of amounts that the FCBs have drawn but

not yet repaid is reported in the line entitled "Central bank liquidity swaps." U.S. dollar liquidity swaps have maturities ranging from overnight to three months. Table 2 of the H.4.1 statistical release reports the maturity distribution of the outstanding U.S. dollar liquidity swaps. Detailed information about drawings on the swap lines by the participating FCBs is presented on the FRBNY's website at [www.newyorkfed.org/markets/fxswap](http://www.newyorkfed.org/markets/fxswap).

### 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 U.S. dollar liquidity swap lines, which provide FCBs with the capacity to offer U.S. dollar liquidity to financial institutions in their jurisdictions. Under the foreign currency liquidity swap lines established in April 2009, the Federal Reserve had the ability to provide 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, and they expired on February 1, 2010.

In November 2011, as a contingency measure, the FOMC agreed to establish temporary bilateral foreign currency liquidity swap arrangements with the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, and the Swiss National Bank so that liquidity can be provided in any of their currencies if necessary. The swap lines are authorized until February 1, 2013. So far, the Federal Reserve has not drawn on these swap lines. Additional information is available at [www.newyorkfed.org/markets/liquidity\\_swap.html](http://www.newyorkfed.org/markets/liquidity_swap.html).

# Special Lending Facilities

During the financial crisis, the Federal Reserve created a number of special lending facilities to stabilize the financial system and support economic activity. Some of these facilities provided liquidity to borrowers and investors in important financial markets. These facilities were closed by 2010; however, some loans made under the Term Asset-Backed Securities Loan Facility (TALF), which is closed to new lending, remain outstanding and will mature over the next several years.<sup>5</sup>

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

## Term Asset-Backed Securities Loan Facility

### Recent Developments

- As of October 31, 2012, the amount of TALF loans outstanding and the number of TALF borrowers had declined from their July 2012 levels, and only about \$1 billion in TALF loans remains outstanding. TALF LLC, a limited liability company (LLC) formed to purchase and manage assets received by the FRBNY from the TALF program, remains in operation, but as of October 31, 2012,

<sup>5</sup> For information on closed facilities, refer to [www.federalreserve.gov/monetarypolicy/expiredtools.htm](http://www.federalreserve.gov/monetarypolicy/expiredtools.htm). For further information, including detailed transaction-level data on these facilities, refer to [www.federalreserve.gov/newsevents/reform\\_transaction.htm](http://www.federalreserve.gov/newsevents/reform_transaction.htm).

**Table 8. TALF: Number of borrowers and loans outstanding**  
As of October 31, 2012

Lending program	Number of borrowers	Borrowing (\$ billions) <sup>1</sup>
Non-CMBS	12	1
CMBS	6	*
<b>Total</b>	<b>15</b>	<b>1</b>

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

\*Less than \$500 million.

<sup>1</sup> Book value.

TALF LLC had purchased no assets from the FRBNY.

### Background

On November 25, 2008, the Federal Reserve announced the creation of the TALF under the authority of Section 13(3) of the Federal Reserve Act. The TALF is a funding facility under which the FRBNY was authorized to extend up to \$200 billion of credit to holders of eligible asset-backed securities (ABS).<sup>6</sup> The TALF was intended to assist financial markets in accommodating the credit needs of consumers and businesses of all sizes by facilitating the issuance of ABS collateralized by a variety of consumer and business loans; it was also intended to improve market conditions for ABS more generally. TALF loans backed by commercial mortgage-backed securities (CMBS) or by ABS backed by government guaranteed loans have maturities of up to five years; all other TALF loans have three-year maturities. Using funds authorized under the Troubled Asset Relief Program (TARP) of the Emergency Economic Stabilization Act of 2008, the Treasury committed to

<sup>6</sup> For additional information on the TALF, refer to [www.federalreserve.gov/monetarypolicy/bst\\_lendingother.htm](http://www.federalreserve.gov/monetarypolicy/bst_lendingother.htm).

provide \$20 billion in credit protection to the FRBNY in connection with the TALF to support the \$200 billion of authorized lending value under the program. This commitment was reduced to \$4.3 billion in July 2010 to reflect the fact that only \$43 billion of TALF loans were outstanding when the program was closed to new lending, and was further reduced to \$1.4 billion in June 2012 to reflect the amount of loans that remained outstanding at that time as the program wound down.

The Federal Reserve closed the TALF for new loan extensions against newly issued CMBS on June 30, 2010, and for new loans against all other types of collateral on March 31, 2010. All TALF loans were extended by the FRBNY and will mature over the next several years, with all loans maturing no later than March 30, 2015.

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

Additionally, all or substantially all of the credit exposures underlying eligible ABS were required to be exposures to U.S.-domiciled obligors or with respect to real property located in the United States or its territories. Except for ABS for which the underlying credit exposures are SBA-guaranteed loans, eligible newly issued ABS must have been issued on or after January 1, 2009. Eligible legacy CMBS must have been issued before January 1, 2009, must be senior in payment priority to all other interests in the underlying pool of commercial mortgages, and must meet certain other criteria designed to protect the Federal Reserve and the Treasury from credit risk. Collateral would not be accepted from a particular borrower if the collateral was backed by loans originated or securitized by that borrower or its affiliate except in very limited circumstances.

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

Billions of dollars, as of October 31, 2012

Type of collateral	Value
<b>By underlying loan type</b>	
Auto	0
Commercial mortgages	*
Newly issued	0
Legacy	*
Credit card	0
Equipment	0
Floorplan	*
Premium finance	*
Servicing advances	0
Small business	*
Student loan	1
<b>Total</b>	<b>1</b>

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

\*Less than \$500 million.

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

**Table 10. TALF collateral by rating**

Billions of dollars, as of October 31, 2012

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

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

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

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

As of October 31, 2012

Issuers
Ford Credit Floorplan Master Owner Trust A
PFS Financing Corp.
SLC Private Student Loan Trust 2009-A
SLC Private Student Loan Trust 2010-B
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

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

As of October 31, 2012

Issuers
Banc of America Commercial Mortgage Inc. Series 2005-5
Banc of America Commercial Mortgage Trust 2006-1
Bear Stearns Commercial Mortgage Securities Trust 2005-PWR10
CD 2007-CD4 Commercial Mortgage Trust
COMM 2005-C6 Mortgage Trust
CS First Boston Mortgage Secur 2004-C1
CSFB Commercial Mortgage Trust 2005-C3
GE Commercial Mortgage Corporation Series 2005-C4
J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2005-CIBC13
J.P. Morgan Chase Commercial Mortgage Securities Corp. Series 2005-LDP5
ML-CFC Commercial Mortgage Trust 2007-8
Morgan Stanley Capital I Trust 2007-TOP27
Wachovia Bank Commercial Mortgage Trust Series 2005-C20
Wachovia Bank Commercial Mortgage Trust Series 2007-C33

## TALF LLC

TALF LLC was formed to purchase and manage any ABS that might be surrendered by a TALF borrower or otherwise claimed by the FRBNY in connection with its enforcement rights to the TALF collateral. In certain limited circumstances, TALF LLC may also purchase TALF program loans from the FRBNY. TALF LLC has committed to purchase, for a fee, all 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 TARP will provide additional subordinated debt funding to TALF LLC to finance up to \$1.4 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, 7, 8, and 9 of the H.4.1 statistical release. As of October 31, 2012, TALF LLC had purchased no assets from the FRBNY.

## Maiden Lane LLC

### Quarterly Developments

- On November 15, 2012, the FRBNY announced that net proceeds from additional sales of securities in Maiden Lane LLC enabled the full repayment of the subordinated loan made by JPMorgan Chase & Co. (JPMC) plus accrued interest. In accordance with the Maiden Lane LLC agreements, the FRBNY will receive all future cash flows generated from the remaining Maiden Lane LLC assets.

### Background

In March 2008, the FRBNY and JPMC entered into an arrangement related to financing provided by the FRBNY to facilitate the acquisition by JPMC of The Bear Stearns Companies, Inc. (Bear Stearns). In connection with the transaction, the Federal Reserve Board authorized the FRBNY, under Section 13(3) of the Federal Reserve Act, to extend credit to a Delaware limited liability company, Maiden Lane LLC, to partially fund the purchase of a portfolio of mortgage-related securities, residential and commercial mortgage loans, and associated hedges from Bear Stearns. In the second quarter of 2008, the FRBNY extended credit to Maiden Lane LLC. In addition, JPMC made a \$1.15 billion subordinated loan to Maiden Lane LLC that was available to absorb first any losses that may be realized. After repayment in full of the FRBNY's senior loan and JPMC subordinated loan (each including accrued interest), FRBNY will receive any remaining proceeds. The LLC manages its assets through time to maximize the repayment of credit extended to the LLC and to minimize disruption to the financial markets.

On June 14, 2012, the FRBNY announced that its loan to Maiden Lane LLC had been repaid in full, with interest. This repayment marked the retirement of the remaining debt owed to the FRBNY from the crisis-era intervention with Bear Stearns. In accordance with the Maiden Lane LLC agreements, proceeds from subsequent asset sales and cash flow generated by the securities were used to repay the subordinated loan extended by JPMC, after which the

**Table 12. Maiden Lane LLC outstanding principal balance of loans**

Millions of dollars

	FRBNY senior loan	JPMC subordinated loan
<b>Since inception</b>		
Principal balance at closing	28,820	1,150
Accrued and capitalized interest to 9/30/2012	765	279
Repayments to 9/30/2012	(29,585)	(1,121)
Principal balance on 9/30/2012 (including accrued and capitalized interest)	0	308
<b>Most recent quarterly activity</b>		
Principal balance on 6/30/2012 (including accrued and capitalized interest)	0	1,100
Accrued and capitalized interest from 6/30/2012 to 9/30/2012	0	8
Repayment during the period from 6/30/2012 to 9/30/2012 <sup>1</sup>	0	(800)
Principal balance on 9/30/2012 (including accrued and capitalized interest)	0	308

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.

<sup>1</sup> Repayment amount for the period includes \$0.7 billion of proceeds received from asset sales. Due to the cash flow cut off date used to calculate the cash available for the repayment, the portion of the repayment amount comprised of sale proceeds may not reconcile to the total sale proceeds reported each month. Proceeds received after the cut off date are applied to the loan in the next monthly payment cycle.

**Table 13. Maiden Lane LLC summary of portfolio composition, cash and cash equivalents, and other assets and liabilities**

Millions of dollars

	Fair value on 9/30/2012 <sup>1</sup>	Fair value on 6/30/2012 <sup>1</sup>
Federal agency and GSE MBS	384	402
Non-agency RMBS	3	106
Commercial loans	466	567
Residential loans	0	0
Swap contracts	372	458
Other investments <sup>2</sup>	450	367
Cash and cash equivalents	395	1,011
Other assets <sup>3</sup>	76	9
Other liabilities <sup>4</sup>	(426)	(473)
<b>Net assets</b>	<b>1,719</b>	<b>2,447</b>

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

<sup>1</sup> Change in fair value from the prior quarter reflects a combination of asset repayment of principal, change in the price of portfolio securities, realized gains and losses as a result of sales, and the disbursement of cash to in accordance with the Maiden Lane LLC agreements.

<sup>2</sup> Primarily composed of short-term investments (mainly of U.S. Treasury securities), CMBs, and CDOs.

<sup>3</sup> Including interest and principal receivable, amounts receivable for securities sold, and other assets.

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

**Table 14. Maiden Lane LLC securities distribution by sector and rating**

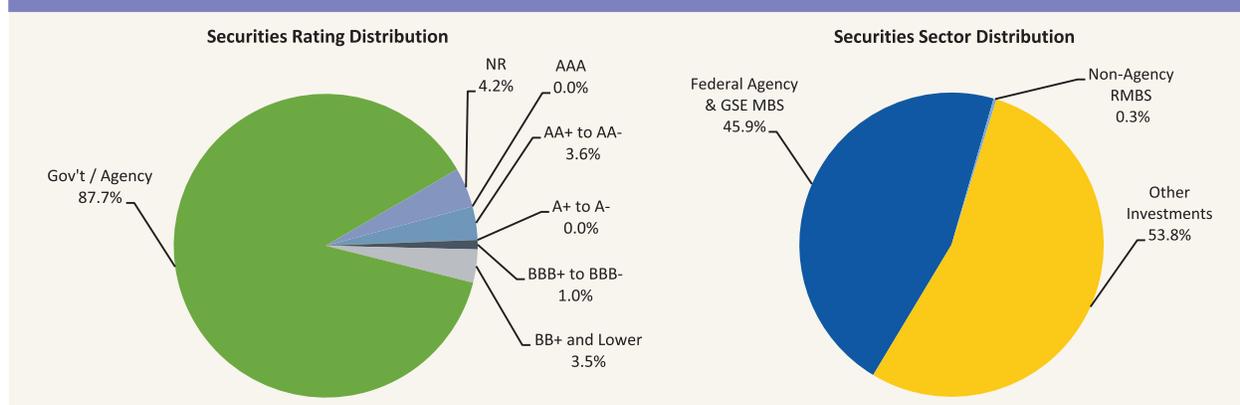
Percent, as of September 30, 2012

Sector <sup>1</sup>	Rating							Total
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and lower	Gov't/Agency	Not rated (NR)	
Federal agency and GSE MBS	0.0	0.0	0.0	0.0	0.0	45.9	0.0	45.9
Non-agency RMBS	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.3
Other	0.0	3.6	0.0	1.0	3.2	41.8	4.2	53.8
<b>Total</b>	<b>0.0</b>	<b>3.6</b>	<b>0.0</b>	<b>1.0</b>	<b>3.5</b>	<b>87.7</b>	<b>4.2</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.

<sup>1</sup> Does not include Maiden Lane LLC's swaps and commercial and residential mortgage loans.

**Figure 2. Maiden Lane LLC securities distribution as of September 30, 2012**



FRBNY will receive all residual profits. The FRBNY will continue to sell the remaining assets from the Maiden Lane LLC portfolio as market conditions warrant and if the sales represent good value for the public. Additional information is available at [www.newyorkfed.org/newsevents/news/markets/2012/an120614.html](http://www.newyorkfed.org/newsevents/news/markets/2012/an120614.html) and [www.newyorkfed.org/markets/maidenlane.html](http://www.newyorkfed.org/markets/maidenlane.html).

The assets of Maiden Lane LLC are presented weekly in tables 1, 8, and 9 of the H.4.1 statistical release. Additional details on the accounts of Maiden Lane LLC are presented in table 4 of the H.4.1 statistical release. Detailed information on the terms of the loan, the holdings of Maiden Lane LLC (including

the CUSIP number, descriptor, and the current principal balance or notional amount outstanding for nearly all of the holdings of Maiden Lane LLC with the exception of residential whole loans), and the sale of Maiden Lane LLC assets (including monthly lists of assets sold from Maiden Lane LLC and quarterly updates on total proceeds from sales and the total amount purchased by each counterparty) is published on the FRBNY website at [www.newyorkfed.org/markets/maidenlane.html](http://www.newyorkfed.org/markets/maidenlane.html).

Information about the assets and liabilities of Maiden Lane LLC is presented as of September 30, 2012, in [tables 12](#) through [14](#) and [figure 2](#). This information is updated on a quarterly basis.



# Federal Reserve Banks' Quarterly Financial Information

The Federal Reserve publishes quarterly financial reports presenting summary information on the combined financial position and results of operations of the Reserve Banks. The combined information includes the accounts and results of operations of the 12 Reserve Banks and several consolidated variable interest entities. All financial information included in the financial reports is unaudited. Quarterly financial reports for the third quarter of 2012 are available on the Federal Reserve Board's website at [www.federalreserve.gov/monetarypolicy/bst\\_fedfinancials.htm#quarterly](http://www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm#quarterly).

## Quarterly Developments

- On November 29, 2012, the Federal Reserve Board published the "Federal Reserve Banks Combined Quarterly Financial Report" for the third quarter of 2012, which includes summary information on the combined financial position and results of operations of the 12 Reserve Banks and several consolidated variable interest entities. All financial information included in the report is unaudited. The report is available on the Federal Reserve Board's website at [www.federalreserve.gov/monetarypolicy/bst\\_fedfinancials.htm#quarterly](http://www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm#quarterly).
- The average daily balance of the Federal Reserve SOMA holdings was approximately \$2.7 trillion during the first three quarters of 2012. Net earnings from the portfolio were approximately \$69.3 billion, including net gains of \$8.6 billion; most of the earnings were attributable to interest income on Treasury securities and federal agency and GSE MBS.
- Interest earned from Federal Reserve lending programs was approximately \$76 million during the first three quarters of 2012; interest earned on loans made by the TALF accounted for most of the total.
- Net income for Maiden Lane, Maiden Lane II, and Maiden Lane III was approximately \$0.5 billion, \$1.2 billion, and \$4.3 billion, respectively, during the first three quarters of 2012.
- After providing for the payment of dividends and reserving an amount necessary to equate surplus with capital paid in, distributions to the Treasury as interest on Federal Reserve notes totaled \$67.7 billion during the first three quarters of 2012.



# Appendix

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

On July 21, 2010, the Dodd-Frank Act was signed into law.<sup>7</sup> The Dodd-Frank Act included changes designed to promote transparency while protecting monetary policy independence and the efficacy of the Federal Reserve's liquidity programs and OMOs. In addition, the Dodd-Frank Act modified the Federal Reserve's authority to provide emergency liquidity to nondepository institutions under Section 13(3) of the Federal Reserve Act in light of other amendments that provide the U.S. government with new authority to resolve failing, systemically important nonbank financial institutions in an orderly manner.

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

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

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

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

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

<sup>7</sup> The full text of the Dodd-Frank Act is available at [www.gpo.gov/fdsys/pkg/BILLS-111hr4173enr/pdf/BILLS-111hr4173enr.pdf](http://www.gpo.gov/fdsys/pkg/BILLS-111hr4173enr/pdf/BILLS-111hr4173enr.pdf).

