

July 2010



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

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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 Federal Reserve implemented a number of credit and liquidity programs to support the liquidity of financial institutions and to foster improved conditions in financial markets in response to the extraordinary strains that began to emerge in the summer of 2007.

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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 were implemented to address the financial crisis. In addition, it contains financial reporting for the first quarter of 2010.

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/clbsreports.htm](http://www.federalreserve.gov/monetarypolicy/clbsreports.htm).

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## Overview

### Recent Developments

- The Federal Reserve has closed many of the special liquidity facilities that were created to support financial markets during the crisis. As previously announced, the Federal Reserve closed the Term Asset-Backed Securities Loan Facility (TALF) for new loan extensions against newly issued commercial mortgage-backed securities (CMBS) on June 30,

2010. The final TALF subscription had no loan requests and no new loans were extended.

- On June 28 and July 12, 2010, the Federal Reserve conducted its second and third small-value auctions through the Term Deposit Facility (TDF). The June 28 auction offered \$2 billion in 28-day deposits and settled on July 1, 2010. In addition, \$122 million in deposits was awarded to noncompetitive bidders. The July 12 auction offered \$2 billion in 84-day deposits

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

Billions of dollars

Item	Current June 30, 2010	Change from May 26, 2010	Change from July 1, 2009
<b>Total assets</b>	<b>2,334</b>	<b>-4</b>	<b>+326</b>
<i>Selected assets</i>			
Securities held outright	2,060	+3	+836
U.S. Treasury securities <sup>1</sup>	777	+*	+114
Federal agency debt securities <sup>1</sup>	165	-2	+67
Mortgage-backed securities <sup>2</sup>	1,118	+5	+656
Memo: Overnight securities lending <sup>3</sup>	14	+11	+7
Memo: Net commitments to purchase mortgage-backed securities <sup>4</sup>	16	-20	-124
Lending to depository institutions <sup>5</sup>	1	-4	-35
Central bank liquidity swaps <sup>6</sup>	1	+*	-114
Lending through other credit facilities	43	-2	-98
Net portfolio holdings of Commercial Paper Funding Facility LLC <sup>7</sup>	*	-*	-115
Term Asset-Backed Securities Loan Facility <sup>8</sup>	43	-2	+17
Net portfolio holdings of TALF LLC <sup>9</sup>	1	+1	+1
Support for specific institutions	118	-1	+12
Credit extended to American International Group, Inc., net <sup>10</sup>	25	-1	-18
Net portfolio holdings of Maiden Lane LLC <sup>11</sup>	28	+*	+2
Net portfolio holdings of Maiden Lane II LLC <sup>11</sup>	16	-*	-*
Net portfolio holdings of Maiden Lane III LLC <sup>11</sup>	23	-*	+3
Preferred interests in AIA Aurora LLC and ALICO Holdings LLC <sup>8</sup>	26	+1	+26
<b>Total liabilities</b>	<b>2,278</b>	<b>-4</b>	<b>+319</b>
<i>Selected liabilities</i>			
Federal Reserve notes in circulation	904	+4	+33
Term deposits held by depository institutions	1	+1	+1
Other deposits held by depository institutions	972	-116	+246
U.S. Treasury, general account	88	+71	+10
U.S. Treasury, supplementary financing account	200	+*	+*
Other deposits	28	+28	+28
<b>Total capital</b>	<b>56</b>	<b>+1</b>	<b>+7</b>

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. Includes commitments associated with outright purchases, dollar rolls, and coupon swaps.

5. Total of primary, secondary, and seasonal credit.

6. 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.

7. Includes about \$1 million in other investments as of June 30, 2010.

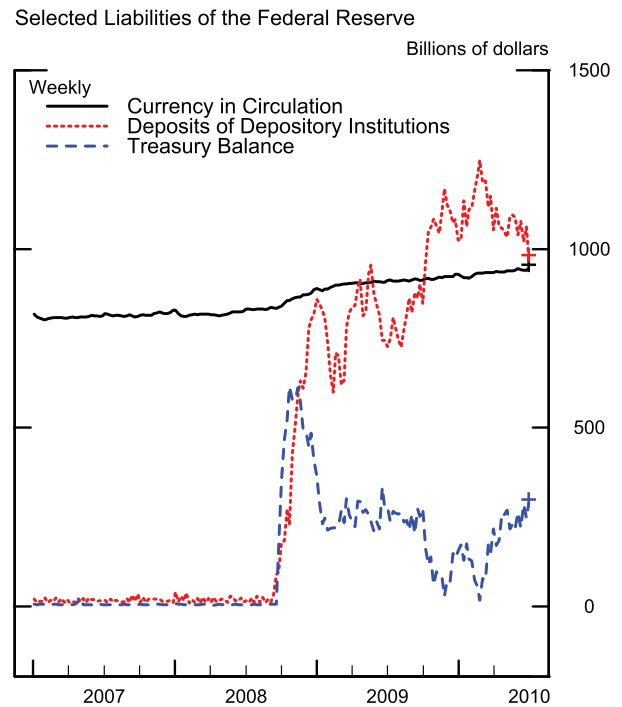
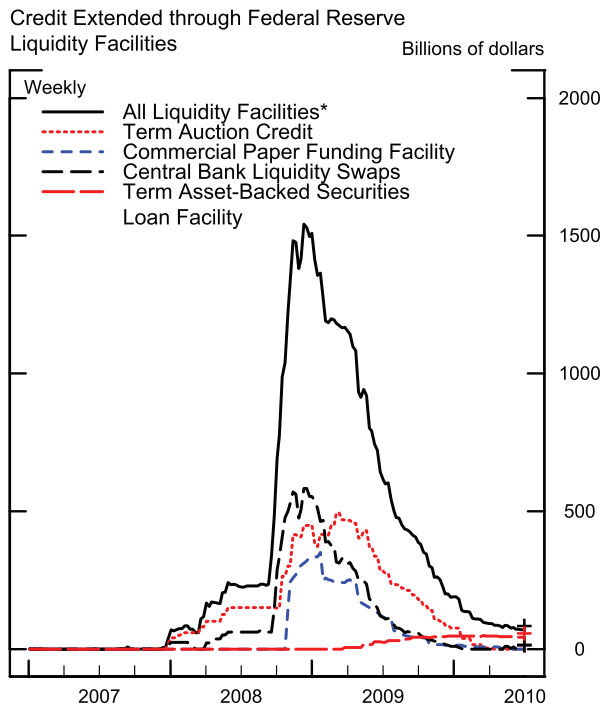
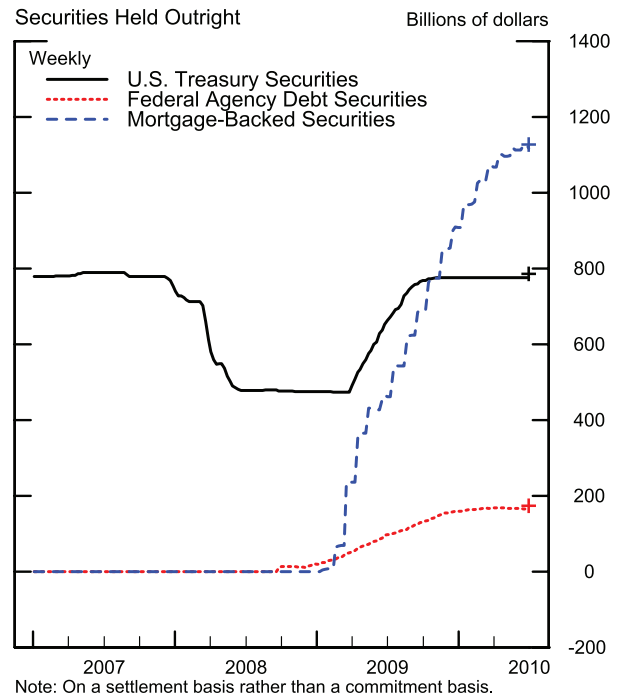
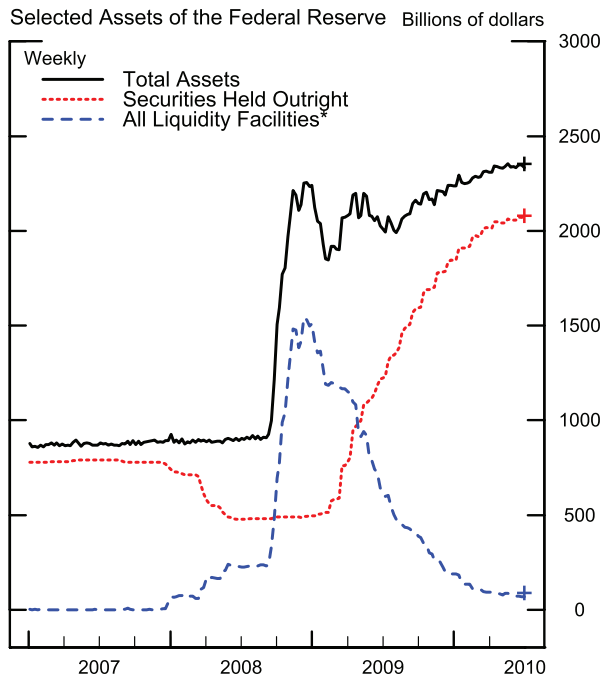
8. Book value.

9. As of June 30, 2010, TALF LLC had purchased no assets from the FRBNY.

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

11. Fair value, reflecting values as of March 31, 2010. 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 6/30/2010.

\*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.



and settled on July 15, 2010. Noncompetitive bidders were awarded \$119 million. Both auctions were well subscribed with stop-out rates of 27 and 31 basis points, respectively, and bid-to-cover ratios of 5.57 and 3.70, respectively. These small-value auctions are a matter of prudent planning and have no implications for the near-term conduct of monetary policy. More information on 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).

- On June 28, 2010, the Federal Reserve Bank of New York (FRBNY) Open Market Trading Desk announced that it would begin conducting a limited number of agency mortgage-backed security (MBS) coupon swap operations in order to facilitate the timely settlement of the Federal Reserve's agency MBS purchases. In these operations, the Desk sold securities that have been in short supply in the market and simultaneously purchased a corresponding amount of other agency MBS that were more readily available for settlement.
- The two-year accumulation period that followed the closing date for Maiden Lane LLC ended on June 26, 2010. Consistent with the terms of the Maiden Lane LLC transaction, the distributions of the pro-

ceeds realized on the asset portfolio held by Maiden Lane LLC, after payment of certain fees and expenses, now occur on a monthly basis unless otherwise directed by the Federal Reserve. The monthly distributions are used to cover the expenses and repay the obligations of the LLC, including the principal and interest on the loan from the FRBNY.

- On July 20, 2010, the Federal Reserve and the U.S. Treasury Department announced a reduction in the amount of credit protection provided to the TALF under the Troubled Asset Relief Program (TARP) from \$20 billion to \$4.3 billion. The Treasury had originally committed \$20 billion in credit protection to cover the maximum \$200 billion of TALF lending that had been authorized by the Federal Reserve. However, the TALF program closed to new lending on June 30, 2010, with \$43 billion in TALF loans outstanding; the reduction in TARP funds committed for credit protection is consistent with the actual amount of TALF loans. To date, the TALF program has experienced no losses and all outstanding TALF loans are well collateralized. The Federal Reserve anticipates that the accumulated excess interest spread will cover any loan losses that may occur without recourse to the dedicated TARP funds.

## System Open Market Account (SOMA)

### Domestic SOMA Portfolio

#### Recent Developments

- The SOMA portfolio continued to expand, reflecting ongoing settlements associated with the Federal Reserve's agency mortgage-backed securities (MBS) purchase program. As previously announced, the purchase phase of the MBS purchase program was completed on March 31, 2010; settlements are expected to continue over the next few months.
- As of June 30, 2010, the Federal Reserve held approximately \$1,118 billion of agency MBS. This quantity represents a \$5 billion increase over the level of agency MBS holdings on May 26, 2010, as settlement of previously executed purchases outpaced repayments.
- On June 28, 2010, the Federal Reserve Bank of New York (FRBNY) Open Market Trading Desk announced that it would begin conducting a limited number of agency MBS coupon swap operations in order to facilitate the timely settlement of the Federal Reserve's agency MBS purchases. A coupon swap is a standard market transaction involving an agreement to purchase one agency MBS and a simultaneous agreement to sell a different agency MBS. The MBS coupon swap operations began on June 29, 2010, and were completed on July 8, 2010. In the swaps, \$9.15 billion in Fannie Mae 30-year 5.5 percent coupon securities were sold and a total of \$9.15 billion in Fannie Mae and Freddie Mac 30-year 4.5 percent coupon securities were purchased.

#### 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 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). 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.

**Table 2. Domestic SOMA Securities Holdings**

Billions of dollars, as of June 30, 2010

Security type	Total par value
U.S. Treasury bills .....	18
U.S. Treasury notes and bonds, nominal .....	712
U.S. Treasury notes and bonds, inflation-indexed <sup>1</sup> .....	47
Federal agency debt securities <sup>2</sup> .....	165
Mortgage-backed securities <sup>3</sup> .....	1,118
<b>Total SOMA securities holdings</b> .....	<b>2,060</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.

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 government-sponsored enterprise (GSE) debt securities that are particularly sought after. Amounts outstanding under this facility are reported in table 1A of the H.4.1 statistical release.

The FRBNY's traditional counterparties for OMOs are the primary dealers with which the FRBNY trades U.S. government and select other securities. In early 2010, the FRBNY revised its policy regarding the administration of its relationships with primary dealers in order 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. The revised policy offers 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.

#### *Large-Scale Asset Purchase Programs (LSAPs)*

In November 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 goal of these debt purchases was to reduce the cost and increase the availability of credit for the purchase of houses. 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 also determined that supporting the MBS "dollar roll" market promoted 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 Fed-

eral Reserve also holds some cash and short-term investments associated with the MBS purchase program.

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 would gradually slow the pace of these transactions in order to promote a smooth transition in markets as purchases of these Treasury securities were completed. As anticipated, the purchases were completed by the end of October 2009.

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 LSAPs, 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. As anticipated by the FOMC, these transactions were completed 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 at [www.newyorkfed.org/markets/soma/sysopen\\_accholdings.html](http://www.newyorkfed.org/markets/soma/sysopen_accholdings.html).

### Reverse Repurchase Agreements (Reverse Repos)

In December 2009, the FRBNY conducted a set of small-scale, real-value, triparty reverse repos with primary dealers. Reverse repos 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 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 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 published the Reverse Repurchase Transaction (RRP) Eligibility Criteria for Money Funds for the first set of expanded counterparties, domestic money market mutual funds.

On April 30, 2010, the FRBNY published the Reverse Repurchase Program Form Master Repurchase Agreement for Money Market Mutual Funds (MRA), which sets out the legal terms and conditions under which the FRBNY and its money market mutual fund counterparties may undertake reverse repos. Publication of the MRA is part of the Federal Reserve's larger effort to prepare for the potential need to conduct large-scale reverse repos with an expanded set of counterparties in addition to the existing set of primary dealer counterparties. These actions are part of a process of prudent planning by the Federal Reserve and have no implications for monetary policy decisions in the near term.

### Liquidity Arrangements with Foreign Central Banks

#### Recent Developments

- Usage of the dollar liquidity swap arrangements that were re-established in May 2010 was little changed in June, with only one small new draw. As presented in table 3, the total amount of liquidity provided under these lines was \$1.2 billion as of June 30, 2010.

### Background

Because of the global character of bank funding markets, the Federal Reserve has at times coordinated with other central banks to provide liquidity. During the financial crisis, the Federal Reserve 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. These temporary arrangements expired on February 1, 2010. However, in May 2010, temporary dollar liquidity swap lines were re-established with certain FCBs in order to address the re-emergence of strains in global U.S. dollar short-term funding markets.

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

#### 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. In May 2010, the FOMC re-authorized dollar liquidity swap lines with the Bank of Canada, the Bank of England, the Euro-

**Table 3. Amounts Outstanding under Dollar Liquidity Swaps**

As of June 30, 2010

Central bank	Amount (\$ billions)	Settlement date	Term	Interest rate
Bank of Canada .....	0.0	—	—	—
Bank of England .....	0.0	—	—	—
Bank of Japan .....	0.2	5/20/2010	84-day	1.24%
Bank of Japan .....	*	6/17/2010	84-day	1.23%
European Central Bank ..	1.0	5/20/2010	84-day	1.24%
Swiss National Bank ...	0.0	—	—	—
<b>Total .....</b>	<b>1.2</b>	—	—	—

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

\*Less than \$50 million.

pean Central Bank, the Bank of Japan, and the Swiss National Bank through January 2011.

Swaps under these lines consist of two transactions. When an FCB draws on its swap line with the FRBNY, the FCB sells a specified amount of its currency to the FRBNY in exchange for dollars at the prevailing market exchange rate. The FRBNY holds the foreign currency in an account at the FCB. The dollars that the FRBNY provides are 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 buy back its currency on a specified future date at the same exchange rate. The second transaction unwinds the first at the same exchange rate used in the initial transaction; as a result, 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, and the FRBNY is not a counterparty to the loan extended by the FCB. The FCB bears the credit risk associated with the loans it makes to institutions in its jurisdiction.

The foreign currency that the Federal Reserve acquires in these transactions is recorded as an asset on the Federal Reserve's balance sheet. In tables 1, 10,

and 11 of the weekly H.4.1 statistical release, the dollar value of amounts that the foreign central banks have drawn but not yet repaid is reported in the line entitled "Central bank liquidity swaps." Dollar liquidity swaps have maturities ranging from overnight to three months. Table 2 of the H.4.1 statistical release reports the maturity distribution of the outstanding 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 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, and they expired on February 1, 2010.



## Lending Facilities to Support Overall Market Liquidity

### Lending to Depository Institutions

#### Recent Developments

- Credit provided to depository institutions through the discount window has continued to decline. As presented in table 6, the lendable value of collateral pledged by depository institutions with discount window loans outstanding on June 30, 2010, was \$13 billion; discount window credit outstanding on that date amounted to \$0.7 billion.

#### Background

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

Depository institutions have, since 2003, had access to three types of discount window credit—primary credit, secondary credit, and seasonal credit. Primary credit is available to depository institutions in generally sound financial condition with few administrative requirements. Secondary credit may be provided to depository institutions that do not qualify for primary credit, subject to review by the lending Reserve Bank.

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

Daily average borrowing for each class of borrower over five weeks ending June 30, 2010

Type and size of borrower	Average number of borrowers <sup>1</sup>	Average borrowing (\$ billions) <sup>2</sup>
<i>Commercial banks</i> <sup>3</sup>		
Assets: more than \$50 billion .....	*	**
Assets: \$5 billion to \$50 billion .....	1	**
Assets: \$250 million to \$5 billion .....	8	**
Assets: less than \$250 million .....	28	**
Thrift institutions and credit unions .....	3	**
<b>Total</b> .....	<b>40</b>	<b>1</b>

Note: Unaudited. Includes primary, secondary, and seasonal credit. Size categories based on total domestic assets from Call Report data as of March 31, 2010. Components may not sum to totals because of rounding.

\* Fewer than one borrower.

\*\* Less than \$500 million.

1. Average daily number of depository institutions with credit outstanding. Over this period, a total of 256 institutions borrowed.

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

3. Includes branches and agencies of foreign banks.

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.

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

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

For five weeks ending June 30, 2010

Rank by amount of borrowing	Number of borrowers	Daily average borrowing (\$ billions)
Top five .....	5	*
Next five .....	5	*
Other .....	30	*
<b>Total</b> .....	<b>40</b>	<b>1</b>

Note: Unaudited. Amount of primary, secondary, and seasonal 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.

\* Less than \$500 million.

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 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 avail-

1. CAMELS (Capital, Assets, Management, Earnings, Liquidity, and Sensitivity) is a rating system employed by banking regulators to assess the soundness of depository institutions.

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

Billions of dollars, as of June 30, 2010

Type of collateral	Lendable value
<i>Loans</i>	
Commercial .....	1
Residential mortgage .....	*
Commercial real estate .....	*
Consumer .....	*
<i>Securities</i>	
U.S. Treasury/agency .....	*
Municipal .....	1
Corporate market instruments .....	1
MBS/CMO: agency-guaranteed .....	*
MBS/CMO: other .....	7
Asset-backed .....	1
International (sovereign, agency, municipal, and corporate) .....	1
<b>Total</b> .....	<b>13</b>

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 \$673 million. The lendable value of collateral pledged by all depository institutions, including those without any outstanding loans, was \$1,273 billion. Lendable value is value after application of appropriate haircuts. Components may not sum to total because of rounding.

\* Less than \$500 million.

able. A borrower may be required to pledge additional collateral if its financial condition weakens. Collateral is pledged by depository institutions under the terms and conditions specified in the Federal Reserve Banks' standard lending agreement, Operating Circular No. 10 ([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 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

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

Billions of dollars, as of June 30, 2010

Type of security and rating	Lendable value
U.S. Treasury, agency, and agency-guaranteed securities	167
<i>Other securities</i>	
AAA .....	165
Aa/AA <sup>1</sup> .....	43
A <sup>2</sup> .....	47
Baa/BBB <sup>3</sup> .....	15
Other investment-grade <sup>4</sup> .....	41
<b>Total</b> .....	<b>479</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.

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

As of June 30, 2010

Percent of collateral used	Number of borrowers	Total borrowing (\$ billions)
Over 0 and under 25 .....	20	1
25 to 50 .....	9	*
50 to 75 .....	7	*
75 to 90 .....	8	*
Over 90 .....	2	*
<b>Total</b> .....	<b>46</b>	<b>1</b>

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

\*Less than \$500 million.

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. 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 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 shown in table 8, depository institutions that borrow from the Federal Reserve generally maintain collateral in excess of their current borrowing levels.

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

#### Recent Developments

- In June 2010, there were no new TALF loans requested. As previously announced, the Federal Reserve closed the TALF for new loan extensions against newly issued commercial mortgage-backed securities (CMBS) on June 30, 2010. The TALF was closed for new loans against all other types of collateral on March 31, 2010.
- TALF loans extended by the Federal Reserve Bank of New York (FRBNY) during the program will mature over the next several years, with all loans

**Table 9. TALF: Number of Borrowers and Loans Outstanding**

As of June 30, 2010

Lending program	Number of borrowers	Borrowing (\$ billions) <sup>1</sup>
Non-CMBS .....	88	33
CMBS .....	73	10
<b>Total</b> .....	<b>134</b>	<b>42</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.

maturing no later than March 30, 2015. TALF LLC, formed to purchase and manage assets received by the FRBNY from TALF program loans, remains in operation, but as of June 30, 2010, TALF LLC had not purchased any assets from the FRBNY.

- On July 20, 2010, the Federal Reserve and the U.S. Treasury Department announced a reduction in the amount of credit protection provided to the TALF under the Troubled Asset Relief Program (TARP) from \$20 billion to \$4.3 billion. The Treasury had originally committed \$20 billion in credit protection to cover the maximum \$200 billion of TALF lending that had been authorized by the Federal Reserve. However, the TALF program closed to new lending on June 30, 2010, with \$43 billion in TALF loans outstanding; the reduction in TARP funds committed for credit protection is consistent with the actual amount of TALF loans. To date, the TALF program has experienced no losses and all outstanding TALF loans are well collateralized. The Federal Reserve anticipates that the accumulated excess interest spread will cover any loan losses that may occur without recourse to the dedicated TARP funds.

#### 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>2</sup> The TALF was intended to assist financial markets in accommodating the credit needs of consumers and businesses of all sizes by facilitating the issuance of ABS collateralized by a variety of consumer and business loans; it was also intended to improve market conditions for ABS more generally. TALF loans backed by CMBS or by ABS backed by government guaranteed loans have maturities of up to five years;

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



all other TALF loans have three-year maturities. Using funds authorized under the Troubled Assets Relief Program (TARP) of the Emergency Economic Stabilization Act of 2008, the U.S. Treasury committed to provide \$20 billion in credit protection to the FRBNY in connection with the TALF to support the \$200 billion of authorized lending value under the program. This commitment was reduced to \$4.3 billion in July 2010 to reflect the fact that only \$43 billion of TALF loans were outstanding when the program closed to new lending.

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

**Table 10. TALF Collateral by Underlying Loan Type**

Billions of dollars, as of June 30, 2010

Type of collateral	Value
<i>By underlying loan type</i>	
Auto .....	3
<i>Commercial mortgages:</i>	
Newly issued .....	0
Legacy .....	11
Credit card .....	16
Equipment .....	*
Floorplan .....	4
Premium finance .....	2
Servicing advances .....	1
Small business .....	2
Student loan .....	9
<b>Total</b> .....	<b>48</b>

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

\*Less than \$500 million.

**Table 11. TALF Collateral by Rating**

Billions of dollars, as of June 30, 2010

Type of collateral	Value
<i>Asset-backed securities with minimum rating of:<sup>1</sup></i>	
AAA/Aaa .....	48
AA+/Aa+ to AA-/Aa- .....	*
<b>Total</b> .....	<b>48</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 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.

Treasury from credit risk. Collateral would not be accepted from a particular borrower if the collateral was backed by loans originated or securitized by that borrower or its affiliate except in very limited circumstances.

The loans provided through the TALF were designed to be limited 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 riskiness and maturity of the various types of eligible ABS. Breakdowns of TALF collateral by underlying loan type and credit rating are shown in tables 10 and 11, respectively.

Consistent with previous announcements, 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. TALF loans extended by the FRBNY during this program will mature no later than March 30, 2015.

## TALF LLC

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

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

As of June 30, 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
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
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 June 30, 2010

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

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

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

As of June 30, 2010

Issuers
Banc of America Commercial Mortgage Inc. Series 2004-2
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-PWR18
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-PWR15
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
CSFB Commercial Mortgage Trust 2005-C3
CSFB Commercial Mortgage Trust 2005-C4
CSFB Commercial Mortgage Trust 2005-C5

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

As of June 30, 2010

Issuers
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 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 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-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-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 2006-C1
Merrill Lynch Mortgage Trust 2007-C1
ML-CFC Commercial Mortgage Trust 2006-2
ML-CFC Commercial Mortgage Trust 2006-3
ML-CFC Commercial Mortgage Trust 2006-4
ML-CFC Commercial Mortgage Trust 2007-5
ML-CFC Commercial Mortgage Trust 2007-6
ML-CFC Commercial Mortgage Trust 2007-7
ML-CFC Commercial Mortgage Trust 2007-8
ML-CFC Commercial Mortgage Trust 2007-9
Morgan Stanley Capital I Trust 2003-IQ4
Morgan Stanley Capital I Trust 2004-TOP13
Morgan Stanley Capital I Trust 2005-HQ5

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

As of June 30, 2010

Issuers
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-TOP27
Wachovia Bank Commercial Mortgage Trust Series 2002-C1
Wachovia Bank Commercial Mortgage Trust Series 2003-C9
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

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 \$4.3 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 June 30, 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 LLC and Maiden Lane III LLC portfolios are used to pay down the Federal Reserve Bank of New York's (FRBNY) loans to those LLCs. For the first quarter of 2010, repayments totaled approximately \$2.0 billion, as presented in tables 18 and 21. Until June 26, 2010, cash flows from the Maiden Lane LLC portfolio were reinvested primarily in agency mortgage-backed securities (MBS).
- The two-year accumulation period that followed the closing date for Maiden Lane LLC ended on June 26, 2010. Consistent with the terms of the Maiden Lane LLC transaction, the distributions of the proceeds realized on the asset portfolio held by Maiden Lane LLC, after payment of certain fees and expenses, now occur on a monthly basis unless otherwise directed by the Federal Reserve. The monthly distributions are used to cover the expenses and repay the obligations of the LLC, including the principal and interest on the loan extended by the FRBNY. According to the priority established in the terms of the transaction, payments by Maiden Lane LLC from the proceeds of the asset portfolio holdings will be made in the following order: operating expenses of the LLC, amounts owed to counterparties under related derivative contracts, principal due to the FRBNY, interest due to the FRBNY, principal due to JPMorgan Chase & Co., and interest due to JPMorgan Chase & Co. Any remaining funds will be paid to the FRBNY.

### Background

During the financial crisis, the Federal Reserve 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

**Table 13. Fair Value Asset Coverage**

Millions of dollars

	Fair value asset coverage of FRBNY loan on 3/31/2010	Fair value asset coverage of FRBNY loan on 12/31/2009
Maiden Lane LLC .....	(1,255)	(2,230)
Maiden Lane II LLC .....	915	(95)
Maiden Lane III LLC .....	6,374	4,294

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

whole and harm the U.S. economy. In certain other cases, the Federal Reserve 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. (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

**Table 14. 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 12/31/2009 (including accrued and capitalized interest) .....	29,233	1,248
Accrued and capitalized interest 12/31/2009 to 3/31/2010 .....	44	16
Repayment during the period from 12/31/2009 to 3/31/2010 .....	-	-
Principal balance on 3/31/2010 (including accrued and capitalized interest) .....	29,277	1,264

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

**Table 15. Maiden Lane LLC Summary of Portfolio Composition, Cash and Cash Equivalents, and Other Assets and Liabilities**

Millions of dollars

	Fair value on 3/31/2010	Fair value on 12/31/2009
Federal Agency & GSE MBS .....	18,794	18,149
Non-agency RMBS .....	1,936	1,909
Commercial loans .....	4,464	4,025
Residential loans .....	604	583
Swap contracts <sup>1</sup> .....	903	985
Other investments .....	969	907
Cash and cash equivalents .....	1,229	1,242
Other assets <sup>2</sup> .....	297	198
Other liabilities <sup>1,3</sup> .....	(1,173)	(995)
<b>Net assets</b> .....	<b>28,022</b>	<b>27,003</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. Including interest and principal receivable and other assets.

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



**Table 16. Maiden Lane LLC Securities Distribution by Sector and Rating**

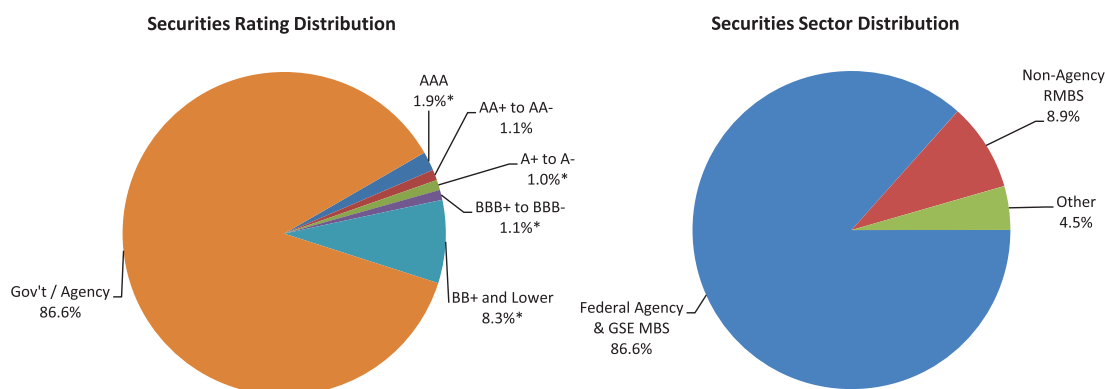
Percent, as of March 31, 2010

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 .....	0.4	0.5	0.8*	0.2*	7.0*	0.0	8.9
Other <sup>2</sup> .....	1.5*	0.6	0.3	0.8*	1.3*	0.0	4.5
<b>Total</b> .....	<b>1.9*</b>	<b>1.1</b>	<b>1.0*</b>	<b>1.1*</b>	<b>8.3*</b>	<b>86.6</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 and commercial and residential mortgage loans.
  2. Includes all asset sectors that, individually, represent less than 5 percent of the aggregate fair value of securities in the portfolio.
- \* Updated on 9/09/2010 to reflect a correction to the classification of certain securities held in the Maiden Lane LLC portfolio.

**Figure 2. Maiden Lane LLC Securities Distribution as of March 31, 2010**



\* Updated on 9/09/2010 to reflect a correction to the classification of certain securities held in the Maiden Lane LLC portfolio.

Lane LLC, to partially fund the purchase of a portfolio of mortgage-related securities, residential and commercial mortgage loans, and associated hedges from Bear Stearns. The LLC is managing its assets through time to maximize the repayment of credit extended to the LLC and to minimize disruption to the financial markets. In the second quarter of 2008, the FRBNY extended credit to Maiden Lane LLC. Details of the terms of the loan are published on the FRBNY website at [www.newyorkfed.org/markets/maidenlane.html](http://www.newyorkfed.org/markets/maidenlane.html).

The assets of Maiden Lane LLC are presented weekly in tables 1, 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 on the holdings of the 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, 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 March 31, 2010, in tables 14 through 16 and figure 2. This information is updated on a quarterly basis.

## American International Group (AIG)

### Recent Developments

- The balance on the AIG revolving credit facility decreased by \$1.4 billion between May 26 and June 30, 2010, as presented in table 17A. The decline was primarily attributable to principal repayments and reductions, which outpaced principal drawdowns on the facility.
- As of June 30, 2010, the maximum principal amount of credit available under the AIG revolving credit facility was reduced from \$34.0 billion to approximately \$33.7 billion in connection with the sale of common stock of CME Group, Inc. and the sale of AIG United Guaranty Mortgage Insurance Company Canada.
- On July 14, 2010, AIG announced the resignation of Harvey Golub, Chairman of AIG's Board of Directors, effective immediately. AIG board member Robert S. (Steve) Miller succeeded Golub as Chairman. Miller recently served as the Executive Chairman of Delphi Corporation, and has served in a number of corporate restructuring situations, including as Chairman and Chief Executive Officer of Bethlehem Steel Corp. (2001–03), and as Chairman and Chief Executive Officer of Waste Management, Inc. (1997–99).

**Table 17A. AIG Revolving Credit Facility**

Billions of dollars

	Value
Balance on May 26, 2010 .....	26.1
Principal drawdowns .....	0.6
Principal repayments and reductions .....	(2.3)
Recapitalized interest and fees .....	0.3
Restructuring allowance, net .....	0.1
Balance on June 30, 2010 .....	24.7

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.

## Background

On September 16, 2008, the Federal Reserve, with the full support of the Treasury Department, announced that it would lend to AIG to prevent a disorderly failure of this systemically important firm, protect the financial system and the broader economy, and provide the company time to restructure its operations in an orderly manner. Initially, the FRBNY extended an \$85 billion line of credit to the company. The terms of the credit facility are disclosed on the Board's website at [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, the three-month Libor plus 300 basis points, was modified by removing the existing interest

**Table 17B. Preferred Interests in AIA Aurora LLC and ALICO Holdings LLC**

Billions of dollars

Balance on June 30, 2010	Value
Preferred Interests in AIA Aurora LLC and ALICO Holdings LLC <sup>1</sup> .....	25.7
Accrued dividends on preferred interests in AIA Aurora LLC and ALICO Holdings LLC .....	0.0

Note: Unaudited.

1. Book value.

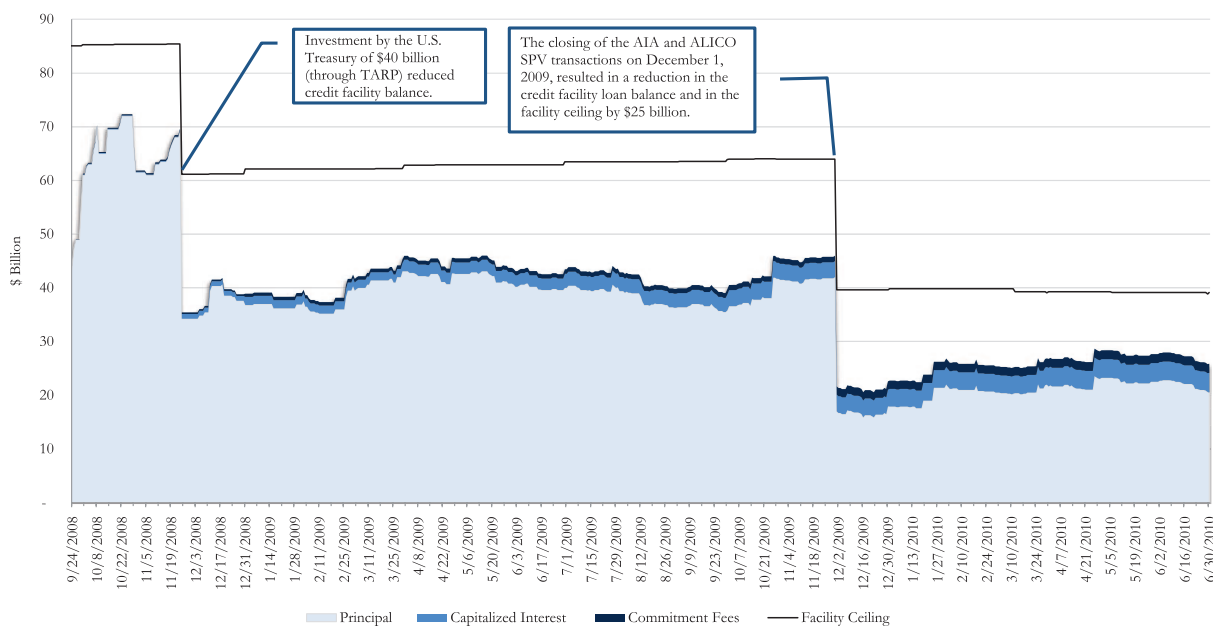
rate floor of 3.5 percent on the Libor component. Consistent with GAAP, as of July 29, 2009, the reported value of the AIG revolving credit extension was reduced by a \$1.3 billion adjustment to reflect the loan restructuring. This restructuring adjustment is intended to recognize the economic effect 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 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, non-regulated 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

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. The ceiling continues to decrease as a result of asset sales.

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 was expected to close by the end of 2010, subject to approval by Prudential shareholders, regulatory approvals, and customary closing conditions.

On May 17, 2010, Prudential announced a rights offering to raise approximately \$20 billion in order to fund part of the cash portion of the purchase price, and announced plans to raise the remaining \$5 billion through an offering of subordinated debt securities. AIG agreed to subscribe for and receive up to \$1.9 billion of the subordinated debt securities, in lieu of receiving an equivalent amount of cash, in the event the entire subordinated debt offering could not be placed with other investors. In early June 2010, Prudential plc announced its intention to not proceed with the transaction.

On June 1, 2010, in response to efforts by Prudential to negotiate for a lower purchase price of \$30.4 billion, AIG announced that it would not consider modifi-

cation to the agreed-upon terms (described above) of the transaction. On June 3, 2010, Prudential and AIG confirmed that the parties had agreed to terminate the definitive agreement for the sale of AIA, as provided for in the sale agreement.

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 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. AIG has stated that it intends to monetize the securities received in the ALICO transaction over time, subject to market conditions, following the lapse of certain minimum holding periods set forth in the definitive agreement entered into with MetLife. Excess cash proceeds and proceeds from AIG's efforts to monetize the securities received in the transaction will be used to redeem any outstanding preferred interests and then to repay outstanding amounts borrowed under the revolving credit facility with the FRBNY.

In March 2010, the maximum amount available under the AIG revolving credit facility was reduced

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. On May 6, 2010, the maximum amount available under the AIG revolving credit facility was further reduced, from \$34.1 billion to approximately \$34.0 billion, in connection with the sale of HighStar Port Partners, L.P.

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 lim-

**Table 18. 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 12/31/2009 (including accrued and capitalized interest) .....	16,005	1,037
Accrued and capitalized interest 12/31/2009 to 3/31/2010 .....	47	8
Repayment during the period from 12/31/2009 to 3/31/2010 .....	(769)	–
Principal balance on 3/31/2010 (including accrued and capitalized interest) .....	15,283	1,045

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

Percent, as of March 31, 2010

RMBS sector	Rating					Total
	AAA	AA+ to AA–	A+ to A–	BBB+ to BBB–	BB+ and lower	
Alt-A ARM .....	0.7	3.0	1.3	1.5	24.5	30.9
Subprime .....	7.1	2.4	3.1	2.0	40.5	55.0
Option ARM .....	0.0	0.0	0.0	0.1	6.4	6.5
Other <sup>1</sup> .....	0.1	0.6	0.0	0.1	7.0	7.7
<b>Total</b> .....	<b>7.8</b>	<b>5.9</b>	<b>4.4</b>	<b>3.6</b>	<b>78.3</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.

ited 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>3</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 at [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

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

Millions of dollars

	Fair value on 3/31/2010	Fair value on 12/31/2009
Alt-A ARM .....	4,934	4,894
Subprime .....	8,791	8,566
Option ARM .....	1,032	953
Other <sup>1</sup> .....	1,225	1,230
Cash and cash equivalents .....	220	267
Other assets <sup>2</sup> .....	3	2
Other liabilities <sup>3</sup> .....	(7)	(2)
<b>Net assets</b> .....	<b>16,198</b>	<b>15,910</b>

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

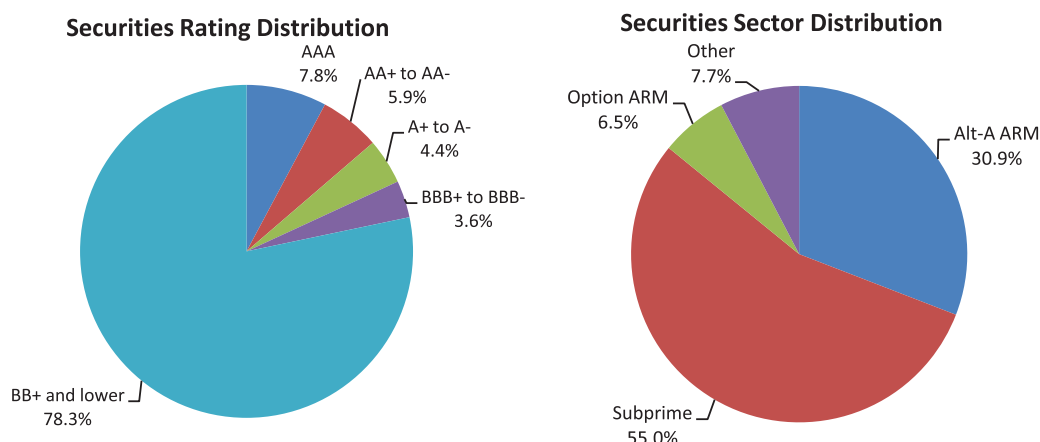
1. Includes all asset sectors that, individually, represent less than 5 percent of aggregate outstanding fair value of securities in the portfolio.

2. Including interest and principal receivable and other receivables.

3. Including accrued expenses and other payables.



**Figure 4. Maiden Lane II LLC Securities Distribution as of March 31, 2010**



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 on the holdings of the Maiden Lane II LLC, including the CUSIP number, descriptor, and the current principal balance or notional amount outstanding for all the positions in the portfolio, is published on the FRBNY website at [www.newyorkfed.org/markets/maidenlane2.html](http://www.newyorkfed.org/markets/maidenlane2.html).

Information about the assets and liabilities of Maiden Lane II LLC is presented as of March 31, 2010, in tables 18 through 20 and figure 4. This information is updated on a quarterly basis.

### Maiden Lane III LLC

Pursuant to authority granted by the Federal Reserve Board under Section 13(3) of the Federal Reserve Act, the FRBNY in November and December 2008, lent approximately \$24.3 billion to a newly formed Dela-

ware 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>4</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 real-

**Table 21. 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 12/31/2009 (including accrued and capitalized interest) .....	18,500	5,193
Accrued and capitalized interest 12/31/2009 to 3/31/2010 .....	54	41
Repayment during the period from 12/31/2009 to 3/31/2010 .....	(1,229)	-
Principal balance on 3/31/2010 (including accrued and capitalized interest) .....	17,325	5,234

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.

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

Millions of dollars

	Fair value on 3/31/2010	Fair value on 12/31/2009
High-grade ABS CDO .....	15,437	15,400
Mezzanine ABS CDO .....	2,098	1,989
Commercial real estate CDO .....	5,517	4,694
RMBS, CMBS, & Other .....	269	256
Cash and cash equivalents .....	354	428
Other assets <sup>1</sup> .....	28	30
Other liabilities <sup>2</sup> .....	(5)	(3)
<b>Net assets</b> .....	<b>23,699</b>	<b>22,794</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.

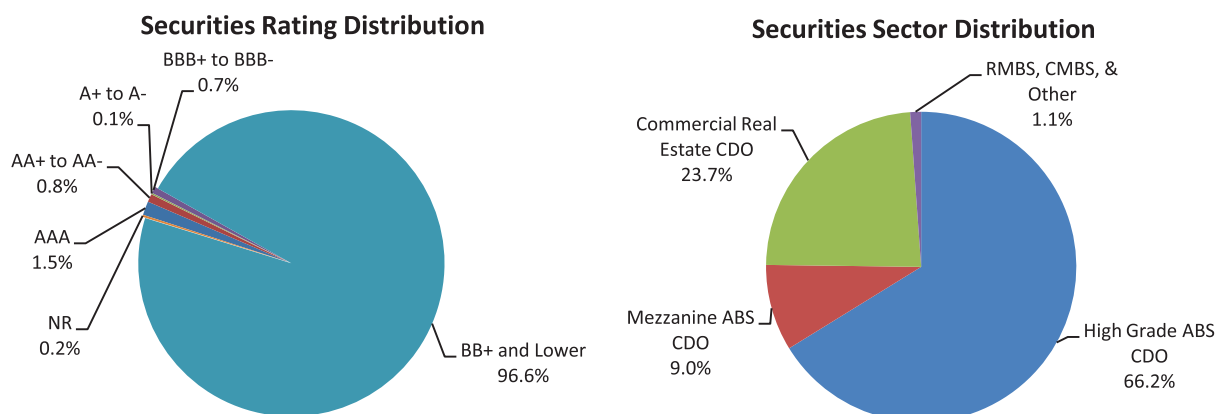
**Table 23. Maiden Lane III LLC Securities Distribution by Sector, Vintage, and Rating**

Percent, as of March 31, 2010

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	66.2	0.0	66.2
Pre-2005 .....	0.0	0.0	0.0	0.0	22.7	0.0	22.7
2005 .....	0.0	0.0	0.0	0.0	30.2	0.0	30.2
2006 .....	0.0	0.0	0.0	0.0	6.7	0.0	6.7
2007 .....	0.0	0.0	0.0	0.0	6.6	0.0	6.6
Mezzanine ABS CDO .....	0.0	0.1	0.0	0.6	8.1	0.2	9.0
Pre-2005 .....	0.0	0.1	0.0	0.6	4.4	0.2	5.3
2005 .....	0.0	0.0	0.0	0.0	2.9	0.0	2.9
2006 .....	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2007 .....	0.0	0.0	0.0	0.0	0.7	0.0	0.7
Commercial real estate CDO ...	1.3	0.6	0.0	0.0	21.8	0.0	23.7
Pre-2005 .....	1.3	0.6	0.0	0.0	3.1	0.0	5.0
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	0.0	0.0	18.7	0.0	18.7
RMBS, CMBS, & Other .....	0.2	0.1	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	0.5	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>1.5</b>	<b>0.8</b>	<b>0.1</b>	<b>0.7</b>	<b>96.6</b>	<b>0.2</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 March 31, 2010**

ized. Details of the terms of the loan are published on the FRBNY website at [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 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 on the

holdings of the Maiden Lane III LLC, including the CUSIP number, descriptor, and the current principal balance or notional amount outstanding for all the positions in the portfolio, is published on the FRBNY website at [www.newyorkfed.org/markets/maidenlane3.html](http://www.newyorkfed.org/markets/maidenlane3.html).

Information about the assets and liabilities of Maiden Lane III LLC is presented as of March 31, 2010, in tables 21 through 23 and figure 5. This information is updated on a quarterly basis.

## Federal Reserve Banks' Financial Tables

### Quarterly Developments

- The average daily balance of the Federal Reserve System Open Market Account (SOMA) holdings was approximately \$2.0 trillion during the first quarter of 2010, as presented in table 25. Net earnings from the portfolio were approximately \$17.9 billion; most of the earnings were attributable to interest income on U.S. Treasury securities and federal agency and government-sponsored enterprise (GSE) mortgage-backed securities (MBS).
- Interest earned from Federal Reserve lending programs was approximately \$0.7 billion during the first quarter 2010, as presented in table 26; interest earned on credit extended to American International Group, Inc. (AIG) and loans made by the Term Asset-Backed Securities Loan Facility (TALF) accounted for most of the total.
- Net income reported on the consolidated financial statements of the Federal Reserve Bank of New York (FRBNY), including changes in valuation, for the Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs was approximately \$1.0 billion, \$0.1 billion, and \$0.8 billion, respectively, in the first quarter of 2010. Net income for the Commercial Paper Funding Facility (CPFF) LLC was approximately \$0.2 billion in the first quarter of 2010, as presented in table 27.
- After providing for the payment of dividends and reservation of an amount necessary to equate surplus with capital paid in, distributions to the U.S. Treasury as interest on Federal Reserve notes totaled \$17.3 billion during the first quarter of 2010, as noted in table 24.

### Background

The Federal Reserve Banks prepare annual financial statements reflecting balances as of December 31, and income and expenses for the year then ended. The Federal Reserve Bank financial statements also include the accounts and results of operations of several limited liability companies (LLCs) that have been consolidated with the 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 Federal Reserve Board's Annual Report (available at [www.federalreserve.gov/boarddocs/rptcongress/default.htm](http://www.federalreserve.gov/boarddocs/rptcongress/default.htm)).

### Combined Statement of Income and Comprehensive Income

Table 24 presents unaudited combined Reserve Bank income and expense information for the first quarter of 2010. Tables 25 through 27 present information for the SOMA portfolio, the Federal Reserve loan programs, and the variable interest entities (VIEs)—the CPFF LLC; Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs; and TALF LLC—for the first quarter of 2010. These tables are updated quarterly.

### SOMA Financial Summary

Table 25 shows the Federal Reserve's average daily balance of assets and liabilities in the SOMA portfolio for the period from January 1, 2010, through March 31, 2010, the related interest income and expense, and the realized and unrealized gains and losses for the first quarter. U.S. Treasury securities, government-

**Table 24. Federal Reserve Banks' Combined Statement of Income and Comprehensive Income**

Millions of dollars

	January 1, 2010 – March 31, 2010
Interest income:	
Loans to depository institutions (refer to table 26) .....	41
Other loans (refer to table 26) .....	671
System Open Market Account (refer to table 25) .....	18,383
Consolidated variable interest entities (refer to table 27):	
Investments held by consolidated variable interest entities:	
Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs .....	1,082
Commercial Paper Funding Facility LLC .....	165
Total interest income .....	<u>20,342</u>
Interest expense:	
System Open Market Account (refer to table 25) .....	13
Depository institution deposits .....	705
Beneficial interest in consolidated variable interest entities (refer to table 27) .....	66
Total interest expense .....	<u>784</u>
Provision for loan restructuring (refer to table 26) .....	—
Net interest income, after provision for loan restructuring .....	<u>19,558</u>
Non-interest income (loss):	
Other loans unrealized gains <sup>1</sup> .....	(156)
System Open Market Account—realized and unrealized losses, net (refer to table 25) .....	(470)
Investments held by consolidated variable interest entities gains (losses), net (refer to table 27):	
Maiden Lane, Maiden Lane II, and Maiden Lane III LLCs .....	3,147
Commercial Paper Funding Facility LLC .....	(1)
TALF LLC <sup>2</sup> .....	—
Beneficial interest in consolidated variable interest entities gains (losses), net .....	(2,126)
Dividends on preferred securities .....	310
Income from services .....	151
Reimbursable services to government agencies .....	80
Other income .....	30
Total non-interest (loss) .....	<u>965</u>
Operating expenses:	
Salaries and other benefits .....	549
Occupancy expense .....	71
Equipment expense .....	42
Assessments by the Board of Governors .....	204
Professional fees related to consolidated variable interest entities (refer to table 27) .....	21
Other expenses .....	234
Total operating expenses .....	<u>1,121</u>
Net income prior to distribution .....	<u>19,402</u>
Change in funded status of benefit plans <sup>2</sup> .....	85
Comprehensive income prior to distribution .....	<u>19,487</u>
Distribution of comprehensive income:	
Dividends paid to member banks .....	387
Transferred to surplus and change in accumulated other comprehensive income (loss) .....	19,100
Memo: Distributions to U.S. Treasury (interest on Federal Reserve notes) <sup>3</sup> .....	17,262

Note: Unaudited.

1. 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 in 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.

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

3. The Board of Governors requires each Reserve Bank to distribute any remaining net earnings to the U.S. Treasury as interest on Federal Reserve notes, after providing for the payment of dividends and reservation of an amount necessary to equate surplus with capital paid-in. These distributions are made weekly based on estimated net earnings for the preceding week. The amount of each Bank's weekly distribution to the U.S. Treasury 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, 2010, through March 31, 2010, were \$18.4 billion.

sponsored enterprise (GSE) debt securities, as well as federal agency and GSE mortgage-backed securities (MBS) making up the SOMA portfolio, are recorded at amortized cost on a settlement-date basis. Rather than using a fair value presentation, an amortized cost presentation more appropriately reflects the Reserve

Banks' purpose for holding these securities given the Federal Reserve's unique responsibility to conduct monetary policy.

Although the fair value of security holdings can be substantially greater than or less than the recorded value at any point in time, these unrealized gains or

**Table 25. SOMA Financial Summary**

Millions of dollars

	January 1, 2010 – March 31, 2010				
	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> .....	805,321	6,442	—	—	6,442
Government-sponsored enterprise debt securities <sup>1</sup> .....	172,600	900	—	—	900
Federal agency and government-sponsored enterprise mortgage-backed securities <sup>2</sup> .....	1,016,889	10,979	406	—	11,385
Investments denominated in foreign currencies <sup>3</sup> .....	25,053	58	—	(876)	(818)
Central bank liquidity swaps <sup>4</sup> .....	1,450	4	—	—	4
Securities purchased under agreements to resell .....	—	—	—	—	—
Other assets <sup>5</sup> .....	398	—	—	—	—
<b>Total assets</b> .....	<b>2,021,711</b>	<b>18,383</b>	<b>406</b>	<b>(876)</b>	<b>17,913</b>
<i>SOMA liabilities</i>					
Securities sold under agreements to repurchase .....	58,339	(13)	—	—	(13)
Other liabilities <sup>6</sup> .....	1,668	—	—	—	—
<b>Total liabilities</b> .....	<b>60,007</b>	<b>(13)</b>	<b>—</b>	<b>—</b>	<b>(13)</b>
<b>SOMA assets and liabilities</b> .....	<b>1,961,704</b>	<b>18,370</b>	<b>406</b>	<b>(876)</b>	<b>17,900</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, 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 the securities on the settlement date.

losses have no effect on the ability of the Reserve Banks to meet their financial obligations and responsibilities. As of March 31, 2010, the fair value of the U.S. Treasury securities held in the SOMA, excluding accrued interest, was \$833.8 billion (amortized cost was \$805.0 billion); the fair value of the GSE debt, excluding accrued interest, was \$177.2 billion (amortized cost was \$176.4 billion); the fair value of the federal agency and GSE MBS, excluding accrued interest, was \$1,083.9 billion (amortized cost was \$1,083.2 billion); and the fair value of investments denominated in foreign currencies was \$24.7 billion (amortized cost was \$24.5 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 securities under agreements to resell or repurchase such securities (commonly referred to as repurchase and reverse repurchase transactions).

The SOMA holds foreign currency deposits and foreign government debt instruments denominated in for-

eign 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 26 summarizes the average daily loan balances and interest income of the Federal Reserve for the first quarter of 2010. The most significant loan balance is the Term Asset-Backed Securities Loan Facility (TALF), which was established in 2009. 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. Many of these lending facilities have closed (refer to Appendix B in this report for a discussion of those facilities). The remaining facilities include the TALF and the credit extended to American International Group, Inc.

**Table 26. Loan Programs Financial Summary**

Millions of dollars

Loan programs <sup>1</sup>	January 1, 2010 – March 31, 2010			
	Average daily balance <sup>2</sup>	Interest income <sup>3</sup>	Provision for loan restructuring	Total
Primary, secondary, and seasonal credit .....	14,762	23	—	23
Term Auction Facility (TAF) .....	28,548	18	—	18
Total loans to depository institutions .....	43,310	41	—	41
Credit extended to American International Group, Inc. (AIG), net .....	23,585	445	—	445
Term Asset-Backed Securities Loan Facility (TALF) <sup>4</sup> .....	47,188	226	—	226
Total loans to others .....	70,773	671	—	671
<b>Total loan programs</b> .....	<b>114,083</b>	<b>712</b>	<b>—</b>	<b>712</b>
Allowance for loan losses .....	—	—	—	—
<b>Total loan programs, net</b> .....	<b>114,083</b>	<b>712</b>	<b>—</b>	<b>712</b>

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

1. Does not include loans to consolidated VIEs. Does not include preferred interests in AIA Aurora LLC and ALICO Holdings LLC.

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 27. 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 March 31, 2010</i>						
Net portfolio assets <sup>1</sup> .....	7,830	404	29,329	16,205	23,704	69,238
Liabilities of consolidated LLCs .....	(45)	0	(1,307)	(7)	(5)	(1,319)
Net portfolio assets available .....	7,785	404	28,022	16,198	23,699	67,919
Loans extended to the consolidated LLCs by FRBNY <sup>2</sup> .....	2,944	0	29,277	15,283	17,325	61,885
Other beneficial interests <sup>2,3</sup> .....	—	103	1,264	1,045	5,234	7,543
Total loans and other beneficial interests .....	2,944	103	30,541	16,328	22,559	69,428
Cumulative change in net assets since the inception of the programs						
Allocated to FRBNY .....	4,841	301	(1,255)	0	760	(495)
Allocated to other beneficial interests .....	—	0	(1,264)	(130)	380	(1,014)
Cumulative change in net assets .....	4,841	301	(2,519)	(130)	1,140	(1,509)
<i>Summary of consolidated VIE net income for the current year through March 31, 2010, 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> .....	165	0	298	218	565	1,081
Interest expense on loans extended by FRBNY <sup>5</sup> .....	(3)	0	(44)	(47)	(54)	(145)
Interest expense—other .....	0	(1)	(16)	(8)	(41)	(65)
Portfolio holdings gains (losses) .....	(1)	0	731	842	1,575	3,148
Professional fees .....	(2)	0	(10)	(3)	(6)	(19)
Net income (loss) of consolidated LLCs .....	159	(1)	959	1,002	2,039	4,000
Less: Net income (loss) allocated to other beneficial interests .....	—	(44)*	(16)	907	1,279	2,170
Net income (loss) allocated to FRBNY .....	159	43	975	95	760	1,830
Add: Interest expense on loans extended by FRBNY, eliminated in consolidation <sup>5</sup> .....	3	0	44	47	54	145
Net income (loss) recorded by FRBNY .....	162	43**	1,019	142	814	1,975

Note: Unaudited.

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

\*\* In addition to the TALF LLC net income of \$43 million, the FRBNY reported \$83 million of income on TALF loans during the quarter ended March 31, 2010. Earnings on TALF loans include interest income and fees of \$239 million and losses on the valuation of loans of \$156 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.



(AIG); the Reserve Banks record amounts funded under these programs as loans. Interest income from these loan programs was about \$0.7 billion during the first quarter of 2010. All loans must be fully collateralized to the satisfaction of the lending Reserve Bank, with an appropriate haircut applied to the collateral. At March 31, 2010, no loans were impaired, and an allowance for loan losses was not required.

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

Table 27 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” represents 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 March 31, 2010.

## 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 Mutual Fund 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. All remaining commercial paper holdings of the CPFF matured on April 26, 2010, and the CPFF LLC is expected to be dissolved following the payment of expenses and the termination or expiration of existing contractual agreements.

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), 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, all commercial paper holdings of the CPFF have matured. The CPFF incurred no losses on

its commercial paper holdings, and accumulated nearly \$5 billion in earnings, primarily from interest income, credit enhancement fees, and registration fees. The cash equivalents and other securities held by the CPFF LLC have also matured, and the Federal Reserve expects that it will dissolve the LLC following the payment of accrued professional fees and the termination or expiration of existing contractual arrangements. In light of the substantial amount of interest income and fees earned under the CPFF, the Board does not expect the CPFF to result in any loss to the Federal Reserve or taxpayers after dissolution of the CPFF LLC.

#### 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 the credit protection provided by the Treasury under the Troubled Asset Relief Program (TARP) (initially \$20 billion and subsequently reduced to \$4.3 billion in light of the \$43 billion in TALF loans outstanding when the TALF closed to new lending on June 30, 2010), 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. The TALF closed to new lending on June 30, 2010. TALF loans extended by the FRBNY during the program will mature over the next several years, with all loans maturing no later than March 30, 2015.

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

The portfolio holdings of each of Maiden Lane LLC (Maiden Lane), Maiden Lane II LLC (ML-II), and Maiden Lane III LLC (ML-III) are revalued in accordance with generally accepted accounting principles



(GAAP) as of the end of each quarter to reflect an estimate of the fair value of the assets on the measurement date. The fair value determined through these revaluations may fluctuate over time. In addition, the fair value of the portfolio holdings that is reported on the weekly H.4.1 statistical release reflects any accrued interest earnings, principal repayments, expense payments and, to the extent any may have occurred since the most recent measurement date, realized gains or losses. The fair values as of June 30, 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 March 31, 2010.

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 may be 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 agreement entered into by AIG for the sale of 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 March 31, 2010, 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). On April 26, 2010, all remaining commercial paper holdings of the CPFF matured, and the CPFF LLC is expected to be dissolved following the payment of expenses and the termination or expiration of existing contractual agreements. Finally, in April 2010, the credit extended through the last Term Auction Facility (TAF) auction in March matured, marking the close of the facility.

The temporary liquidity swap arrangements between the Federal Reserve and other foreign central banks (FCBs) also expired on February 1, 2010. However, the Federal Reserve re-established temporary liquidity swap arrangements with a group of FCBs in May 2010, enabling them to offer U.S. dollar liquidity to financial institutions in their jurisdictions. Information related to these arrangements can be found in the body of this report.

Background information about the TAF, the PDCF, the TSLF, the CPFF, 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.

### Lending Facilities to Support Overall Market Liquidity

#### *Term Auction Facility (TAF)*

On December 12, 2007, the Federal Reserve created the TAF to improve depository institutions' access to term funding. The TAF provided credit through an auction mechanism to depository institutions in generally sound financial condition. The TAF offered 28-day and, beginning in August 2008, 84-day loans.

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. Credit extended under the March 2010 auction matured on April 8, 2010. All TAF loans were fully collateralized to the satisfaction of the lending Reserve Bank, with an appropriate "haircut" applied to the value of the collateral and were repaid in full, with interest, in accordance with the terms of the facility.

#### *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 funding to primary dealers and helped foster improved conditions in financial markets more generally. All credit provided under the PDCF was fully secured by collateral with appropriate haircuts—that is, the value of the collateral exceeded the value of the loan extended. Ini-

tially, 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 Federal Reserve Bank of New York (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.

#### *Commercial Paper Funding Facility (CPFF)*

The CPFF, which was authorized under Section 13(3) of the Federal Reserve Act, was designed to support liquidity in the commercial paper markets. The CPFF provided a liquidity backstop to U.S. issuers of commercial paper through a specially created limited liability company (LLC) called CPFF LLC. This LLC purchased three-month unsecured and asset-backed commercial paper directly from eligible issuers. The FRBNY provided financing to the LLC, and the FRBNY’s loan to the LLC was secured by all of the assets of the LLC, including those purchased with the accumulated upfront fees paid by the issuers. Outstanding assets and liabilities of the CPFF LLC are consolidated onto the balance sheet of the FRBNY.

The CPFF was announced on October 7, 2008, and purchases of commercial paper began on October 27, 2008. The FRBNY administered the program until it was closed on February 1, 2010. The CPFF incurred no losses on its commercial paper holdings, and accumulated nearly \$5 billion in earnings primarily from interest income, credit enhancement fees, and registration fees. The CPFF’s holdings of commercial paper, which peaked at \$350 billion in January 2009, fell to zero on April 26, 2010, as remaining issuers repaid their commercial paper at maturity. The cash equivalents and other securities held by the CPFF LLC have matured, and the Federal Reserve expects that it will dissolve the LLC following the payment of accrued professional fees and the termination or expiration of existing contractual arrangements.

### *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 agreed 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 at [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 at [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.