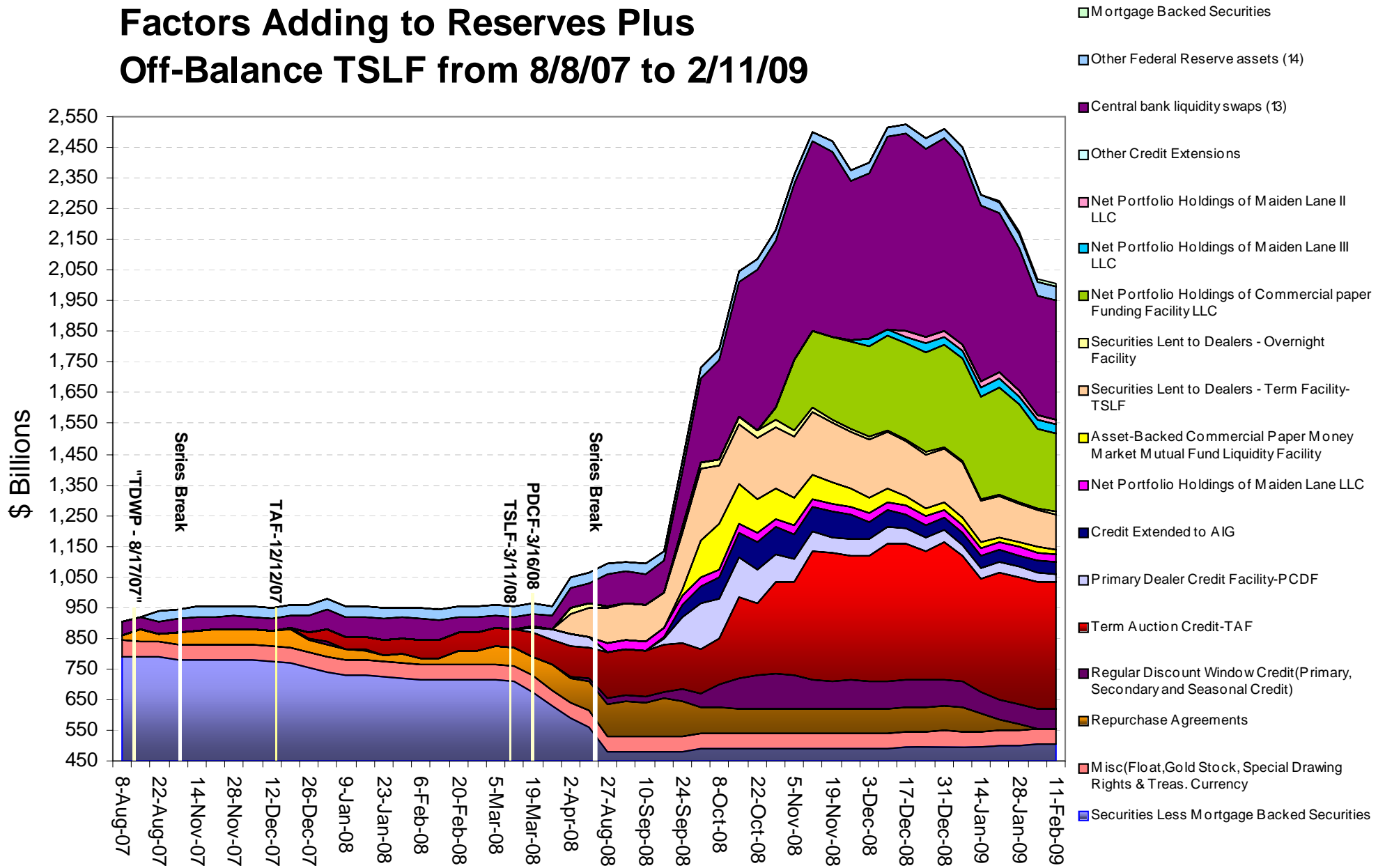


# Factors Adding to Reserves Plus Off-Balance TSLF from 8/8/07 to 2/11/09



Note: Data are weekly averages for all but the Foreign Central Bank TAF which are as of the last day of the week.

Source: Federal Reserve Board of Governors Statistical Release H.4.1.

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## Explanation of Factors Adding to Reserves Chart

The Federal Reserve Board has posted on its website information on how its balance sheet was allocated across the different asset classes, as well as the composition of its liabilities. For many years prior to the most recent turmoil that has occurred in financial markets, the bulk of the Federal Reserve's assets were in the form of its holdings of US Treasury securities. Nearly 90% on average of its assets were of this type. Other major asset categories included Treasury currency and the gold stock. Normal daily open-market operations which add to and subtract from the Federal Reserve's balance sheet take place mainly through repurchase and reverse repurchase agreements. The composition of the Federal Reserve's portfolio has, however, changed dramatically during the recent period of financial turmoil, as the Board of Governors has modified the terms under which access to the discount window is available to banks, and now to investment banks, and the FOMC has modified its securities lending program from the System Open Market Account (SOMA). Specifically, several new programs have been created and several have been modified since they were originally established (while not all have as yet shown up on the Federal Reserve's balance sheet they will be added to the Factors Chart 1 as loans are made):

### **Term Discount Window Program (TDWP)** – announced August 17, 2007

Under the TDWP banks were permitted to borrow on the full range of eligible discount window collateral for a term of up to 90 days.

### **Term Auction Facility (TAF)** – announced December 12, 2007

Under the TAF banks were permitted to bid for term federal funds with maturities up to 28 days, backed by the full range of eligible discount window collateral.

### **Foreign Central Bank Term Auction Facility** – announced in December 2007

Swap lines were established with the European Central Bank and Swiss National Bank specifically to facilitate the establishment of a dollar term auction facility against foreign denominated collateral to provide dollar liquidity in foreign markets. The swap lines were expanded several times and the program expanded to include seven additional central banks (Bank of England, Bank of Japan, Norges Bank, Sveriges Riksbank, Reserve Bank of Australia, Danmarks Nationalbank and Bank of Canada)

### **Term Securities Lending Facility (TSLF)** – announced March 11, 2008

Under the TSLF primary dealers (both banks and investment banks) were permitted to borrow US Treasuries from the SOMA portfolio overnight for a term of up to 28 days, using Treasuries, agency securities, agency mortgage-backed securities, AAA/Aaa-rated private-label real estate MBS, collateralized MVS, agency-collateralized mortgage obligations, and other asset-backed securities (these latter securities were added to the list on May 2, 2008). The Treasury securities so borrowed could then be repo-ed overnight and used as a way of liquefying what might otherwise be illiquid assets in this period of market turmoil. The TSLF-related securities lent show up on the System's balance sheet as off balance-sheet items.

### **Primary Dealer Credit Facility (PDCF)** – announced March 16, 2008, and renewed on July 20, 2008 until January 30, 2009

Under the PDCF primary dealers that didn't have access to the discount window were permitted to borrow from the window under this program using Treasuries, agencies, and investment-grade munis, corporates, MBS and ABS for which a market price is available as collateral. The collateral requirement was subsequently relaxed to include all securities that can be readily pledged in the tri-party repo system.

### **Asset-backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF)** - announced September 19, 2008

The Federal Reserve created a special facility providing non-recourse loans to banking organizations to finance their purchases of high-quality asset-backed commercial paper (ABCP) from money market mutual funds.

### **Commercial Paper Funding Facility (CPFF)** – announced October 7, 2008 to provide temporary direct purchase of newly issued commercial paper directly from corporate issuers.

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While the Federal Reserve has attempted to sterilize the impact of its lending programs so as to avoid undue expansion of the money supply, we do not believe that this adequately represents the total expansionary impact of the Federal Reserve's efforts to deal with the problems in certain segments of financial markets. The System has also initiated, in addition to its regular securities lending program, the Term Securities Lending Facility. This Facility permits prime dealers to borrow securities from the Federal Reserve's portfolio for a term of up to 28 days. In a series of rolling overnight loans of securities, prime dealers are permitted to pledge a wide range of eligible collateral (Treasuries, agencies, agency MBS, AAA/Aaa-rated private-label RMBS, CMBS, agency CO and other ABS) in return for US Treasuries which they can then RP out overnight. The effect is to enable them to liquify otherwise illiquid securities on their balance sheets and replace them with dollar assets which can then be deployed in other ways. While these assets represent a reallocation of reserves within the US banking system, they also represent a way for prime dealers to tap into dollar reserve assets from the rest of the world. To the extent that prime dealer assets are freed up, these institutions can engage in lending that would otherwise not occur. Securities lent under the TSLF are off the Federal Reserve's balance sheet since the transaction is unwound each morning. During the day, the funds that had been RePoed by the prime dealers is likely replaced by daylight overdrafts from the Federal Reserve. Thus, there is effectively an off balance sheet creation of additional reserves to the banking system. To reflect the potential expansionary impact of the TSLF, we have created Chart 1, which attempts to reflect the potential impact that the TSLF may be having on the banking and financial system by adding the TSLF memorandum item to the Federal Reserve's balance sheet.

#### **Definitions of additional Items Shown in Cumberland Table on Factors Adding to Reserves**

The following are the definitions of the items shown on the chart:

**Maiden Lane II LLC.** On December 12, 2008, the Federal Reserve Bank of New York (FRBNY) began extending credit to Maiden Lane II LLC under the authority of section 13(3) of the Federal Reserve Act. This limited liability company was formed to purchase residential mortgage-backed securities from the U.S. securities lending reinvestment portfolio of subsidiaries of American International Group, Inc. (AIG subsidiaries).

**Maiden Lane III LLC.** On November 25, 2008, the Federal Reserve Bank of New York (FRBNY) began extending credit to Maiden Lane III LLC under the authority of section 13(3) of the Federal Reserve Act. This limited liability company was formed to purchase multi-sector collateralized debt obligations (CDOs) on which the Financial Products group of American International Group, Inc. (AIG) has written credit default swap (CDS) contracts.

**Net Portfolio Holdings of Commercial paper Funding Facility LLC** – Beginning Oct.27th the Federal Reserve began buying newly issued commercial paper directly from high quality issuers. These purchases are being made through a limited liability company that was formed to purchase three-month U.S. dollar-denominated commercial paper from eligible issuers and thereby foster liquidity in short-term funding markets and increase the availability of credit for businesses and households.

**Securities Lent Off Balance Sheet to Dealers Overnight** – Treasury securities lent under the Desk's normal securities lending program

**Securities Lent Off Balance Sheet to Dealers Term Facility** – Treasury securities lent under the TSLF

**Mutual Fund Facility – (AMLF)**- Asset-backed commercial paper money market mutual fund liquidity facility added to extend non-recourse loans to U.S. depository institutions and bank holding companies to finance their purchase of high-quality asset backed commercial from money market mutual funds.

**Maiden Lane LLC.** On June 26, 2008, the Federal Reserve Bank of New York (FRBNY) extended credit to Maiden Lane LLC under the authority of section 13(3) of the Federal Reserve Act. This limited liability company was formed to acquire certain assets of Bear Stearns and to manage those assets through time to maximize repayment of the credit extended and to minimize disruption to financial markets.

**Other Assets Less Euro TAF** – Other Federal Reserve assets minus the Foreign Central Bank TAF facilities conducted by the 9 participating foreign central banks as a result of dollar swap arrangements with the Federal Reserve.

**Other credit extensions** – emergency credit extended by a Federal Reserve Bank under exigent circumstances to an individual, partnership, or corporation that has been approved by the Board of Governors. This would include AIG

**Primary Dealer Credit Facility** – Funds lent to primary dealers under the PDCF

**Foreign Central Bank TAF** – Funds lent by now 9 central banks as a result of swap arrangements. These include: European Central Bank, Swiss National Bank, Bank of England, Danmarks Nationalbank, Sveriges Riskbank, Bank of Japan, Bank of Canada, Reserve Bank of Australia and Norges Bank.

**Term auction credit** – Loans of term federal funds to banks under the TAF

**Repurchase agreements** – Securities sold under agreements to repurchase them at a latter time

Miscellaneous which include:

**Float** – Temporary funds that reflect the difference between checks that been credited against the sending bank’s reserve account but have not been cleared against the receiving

bank’s account

**Gold** – Gold bullion held by the System primarily in the Federal Reserve Bank of NY’s vaults

**Special drawing rights certificate accounts** – an asset reflecting an allocation of funds to the US from the IMF and any accumulation of such assets by the Federal Reserve that had been allocated to other countries

**Treasury currency** – US Treasury currency (mainly silver certificates that are being held by the Federal Reserve system but not in circulation)

Regular Discount Window Credit which include:

**Primary credit** – Discount window credit available to generally sound depository institutions on a very short-term basis as a backup rather than a regular source of funding. Depository institutions are not required to seek alternative sources of funds before requesting advances of primary credit.

**Secondary credit** – Discount window credit that is extended on a very short-term basis to depository institutions not eligible for primary credit. It is available to meet backup liquidity needs when its use is consistent with a timely return to market sources of funding or the orderly resolution of a troubled institution.

**Seasonal credit** – Discount window credit that is available to relatively small depository institutions to meet regular seasonal funding needs. Historically, the credits were related to agriculture.

**Securities held outright** - Include US Treasury bills, notes and bonds, inflation-indexed compensation, and federal agency securities (these securities are not presently in the portfolio).