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Federal Reserve System Monthly Report on Credit and Liquidity Programs and the Balance Sheet - June 2009

Federal Reserve System: Board of Governors

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June 2009

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

Board of Governors of the Federal Reserve System

Credit and Liquidity Programs and the Balance Sheet

Overview

Recent Developments

- Improvements in financial market conditions over recent weeks, particularly following release of the results of the Supervisory Capital Assessment Program, have been accompanied by a drop in credit extended through many of the Federal Reserve's liquidity programs.
- Declines in borrowing under the Primary Dealer Credit Facility (PDCF) and Term Securities Lending Facility (TSLF) have been particularly notable. Market reports have suggested that market sources of funding are now less expensive in many cases than funding obtained through these facilities.
- The Federal Reserve has continued to purchase large volumes of Treasury and agency securities and agency-backed mortgage-backed securities (MBS) under its large-scale asset purchase programs.
- In recent weeks, the level of reserve balances has remained quite high; the drain in reserves attributable to a drop in use of various lending programs has been roughly offset by increases in reserves associated with asset purchases.
- Recent quarterly revaluations resulted in markdowns in the aggregate fair value of assets held by Maiden

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

($ billions)

Item	Current May 27, 2009	Change from Apr 29, 2009	Change from May 28, 2008
Total assets	2,082	+13	+1,176
Selected assets:			
Securities held outright	1,107	+124	+616
U.S. Treasury securities[1]	600	+51	+109
Agency securities[1]	80	+12	+80
MBS[2]	428	+62	+428
Memo: TSLF	27	−6	−79
Lending to depository and other financial institutions	437	−16	+258
Primary, secondary, and seasonal credit	38	−7	+19
TAF	373	−31	+223
PDCF	0	−1	−10
AMLF	26	+22	+26
Foreign central bank liquidity swaps[3]	182	−68	+120
Lending through other credit facilities	165	−23	+165
CPFF[4]	149	−33	+149
TALF	15	+9	+15
Support for specific institutions	106	−12	+106
Credit extended to AIG[5]	44	−1	+44
Net portfolio holdings of Maiden Lane I, II, and III[6]	62	−10	+62
Total liabilities	2,037	+15	+1,171
Selected liabilities:			
Federal reserve notes in circulation	870	+7	+82
Deposits of depository institutions	877	+64	+850
U.S. Treasury, general account	11	−52	+7
U.S. Treasury, supplementary financing account	200	0	+200
Other deposits	0	−1	0
Total capital	45	−2	+4

Note: Unaudited. Securities loans under the TSLF are off-balance-sheet transactions. TSLF loans are shown here as a memo item to indicate the portion of securities held outright that have been lent through this program. Components may not add because of rounding.

1. Face value.
2. Current face value which is the remaining principal balance of the underlying mortgages.
3. 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.
4. Book value of net portfolio holdings, includes commercial paper holdings, net, and about $4 billion of other investments.
5. Excludes credit extended to Maiden Lane II and III.
6. Fair value. 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.

Table 7. Securities Pledged by Depository Institutions by Rating
As of May 27, 2009

Type of security and rating	Lendable value ($ billions)
U.S. Treasury, Agency and agency-backed securities	125
Other securities	
AAA	215
Aa/AA[1]	51
A[2]	67
Baa/BBB	29
Other investment-grade[3]	131
Total	618

Note: 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+ rating or MIG1 or SP-1+ municipal bond rating.
2. Includes short-term securities with A-1 rating or SP-1 municipal bond rating.
3. Determined based on credit review by Reserve Bank.

typical market practice. The Federal Reserve applies larger haircuts, and thus assigns lower lendable values, to assets for which no market price is available relative to comparable assets for which a market price is available. Borrowers may be required to pledge additional collateral if their financial condition weakens. Collateral is pledged under the terms and conditions specified in the Federal Reserve Banks' standard lending agreement, Operating Circular No. 10 (www.frbservices.org/files/regulations/pdf/operating_circular_10.pdf).

Discount window loans and extensions of credit through the TAF are made with recourse to the borrower beyond the pledged collateral. Nonetheless, collateral plays an important role in mitigating the credit risk associated with these extensions of credit. The Federal Reserve generally accepts as collateral for discount window loans and TAF credit any assets that meet regulatory standards for sound asset quality. This category of assets includes most performing loans and most investment-grade securities, although for some types of securities (including commercial mortgage-backed securities, collateralized debt obligations, collateralized loan obligations, and certain non-dollar-denominated foreign securities) only AAA-rated securities are accepted. Institutions may not pledge as collateral any instruments that they or their affiliates have issued. Additional collateral is required for discount window and TAF loans with remaining maturity of more than 28 days—for these loans, borrowing only up to 75 percent of available collateral is permitted. To ensure that they can borrow from the Federal Reserve should the need arise, many depository institutions that do not have an outstanding discount window or TAF loan nevertheless routinely pledge collateral.

Table 8. Discount Window Credit Outstanding to Depository Institutions—Percent of Collateral Used
As of May 27, 2009

Percent of collateral used	Number of borrowers	Total borrowing ($ billions)
Over 0 and under 25	113	47
25 to 50	89	114
50 to 75	118	184
75 to 90	48	63
Over 90	14	2
Total	382	411

Note: Components may not add to total because of rounding.

Collateral

As shown in Table 8, most depository institutions that borrow from the Federal Reserve maintain collateral well in excess of their current borrowing levels.

Lending to Primary Dealers

Recent Developments

- Borrowing at the Primary Dealer Credit Facility (PDCF) and Term Securities Lending Facility (TSLF) has declined substantially over recent weeks as conditions in money markets reportedly have improved.

Background

On March 16, 2008, the Federal Reserve announced the creation of the PDCF, which is an overnight loan facility that provides funding to primary dealers and helps foster improved conditions in financial markets more generally.

PDCF credit is fully secured by collateral with appropriate haircuts—that is, the value of the collateral exceeds the value of the loan extended. Initially, eligible collateral was restricted to investment-grade securities. On September 14, 2008, the eligible set of 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, the Federal Reserve Board authorized the extension of credit to a set of other securities dealers on terms very similar to those for the PDCF. Credit extended under either program is reported in table 1 of the H.4.1 statistical release as

Table 9. Credit Outstanding to Primary Dealers
As of May 27, 2009

Number of borrowers	Borrowing under primary dealer credit facility (PDCF) ($ billions)	Borrowing under term securities lending facility (TSLF) ($ billions)
4	0	27

Note: Borrowing figures represent total amounts of PDCF and TSLF credit extended on May 27, 2009. The total reported for the TSLF represents the par value of securities lent.

Table 10. Concentration of Borrowing at the PDCF and TSLF

As of May 27, 2009

	Number of borrowers	Daily average borrowing ($ billions)
Rank by amount of borrowing		
Top five	4	27
Next five	NA	NA
Other	NA	NA
Total	4	27

NA - Not applicable

"Primary dealer and other broker-dealer credit," and is included in "Other loans" in tables 9 and 10 of the H.4.1 release.

On March 11, 2008, the Federal Reserve announced the creation of the TSLF. Under the TSLF, the FRBNY lends Treasury securities to primary dealers for 28 days against eligible collateral in two types of auctions. For so-called "Schedule 1" auctions, the eligible collateral consists of Treasury securities, agency securities, and agency mortgage-backed securities. For "Schedule 2" auctions, the eligible collateral includes Schedule 1 collateral plus highly rated private securities. In mid-2008, the Federal Reserve introduced the Term Securities Lending Facility Options Program (TOP), which offers options to the primary dealers to draw upon short-term, fixed-rate TSLF loans from the SOMA portfolio, in exchange for program-eligible collateral. The TOP program is intended to enhance the effectiveness of the TSLF by offering added liquidity during periods of heightened collateral market pressures, such as quarter-end dates.

The TSLF and TOP programs support the liquidity of primary dealers and foster improved conditions in financial markets more generally. Securities lent through these programs are reported in table 1A of the H.4.1 statistical release.

Table 11. PDCF Collateral

As of May 27, 2009

Type of collateral	Lendable value ($ billions)
Securities	
U.S. Treasury/agency	0
Municipal	0
Corporate market instruments	0
MBS/CMO: agency-backed	0
MBS/CMO: other	0
Asset-backed	0
International (sovereign, agency, and corporate)	0
Equity	0
Loans	0
Other	0
Total	0

Note: Collateral pledged by borrowers of PDCF and related credit to primary dealers as of the date shown. Credit on that date totaled $0 billion. Lendable value is value after application of appropriate haircuts. Components may not sum to total because of rounding.

Table 12. PDCF Collateral by Rating

As of May 27, 2009

Type of collateral	Lendable value ($ billions)
U.S. Treasury/agency securities	0
Other securities	
Aaa/AAA	0
Aa/AA	0
A	0
Baa/BBB	0
Ba/BB	0
B/B	0
Caa/CCC or below	0
Unrated securities	0
Equity	0
Total	0

Note: Collateral pledged by borrowers of PDCF and related credit to primary dealers as of the date shown. Credit on that date totaled $0 billion. Lendable value is value after application of appropriate haircuts. Components may not sum to total because of rounding.

In addition to the TSLF and TOP, the Federal Reserve has long operated an overnight securities lending facility as a vehicle to address market pressures for specific Treasury securities that are particularly sought after. Amounts outstanding under that program are, generally, fairly modest, and these are also reported in table 1A of the H.4.1 statistical release.

Collateral

Eligible collateral for loans extended through the PDCF includes 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 may not exceed the lendable value of eligible collateral that the dealer has provided to FRBNY. The collateral is valued by the clearing banks; values are based on prices reported by a number of private-sector pricing services that are widely used by market participants. Loans made under the PDCF are made with recourse beyond the collateral provided by the primary dealer entity itself.

Transactions under the TSLF involve lending securities rather than cash; a dealer borrows Treasury securities from the Federal Reserve and provides another se-

Table 13. TSLF Collateral

As of May 27, 2009

Type of collateral	Lendable value ($ billions)
Securities	
U.S. Treasury/agency	3
Municipal	2
Corporate	9
MBS/CMO: agency-backed	9
MBS/CMO: other	5
Asset-backed	3
Total	31

Note: Collateral pledged by borrowers of TSLF as of the date shown. Borrowing on the date shown was $27 billion. Lendable value is value after application of appropriate haircuts. Components may not sum to total because of rounding.

Table 14. TSLF Collateral by Rating
As of May 27, 2009

Type of collateral	Lendable value ($ billions)
U.S. Treasury, agency, and agency-backed securities	12
Other securities	
Aaa/AAA	6
Aa/AA	1
A/A-1	7
Baa/BBB	4
Total	31

Note: Collateral pledged by borrowers of TSLF on the date shown. Borrowing on that date was $27 billion. Lendable value is value after application of appropriate haircuts. TSLF collateral must be investment-grade. Components may not sum to total because of rounding.

curity as collateral. Eligible collateral is determined by the Federal Reserve. Currently, two schedules of collateral are accepted. Schedule 1 collateral is Treasury, agency, and agency-guaranteed mortgage-backed securities. Schedule 2 collateral is investment-grade corporate, municipal, mortgage-backed, and asset-backed securities, as well as Schedule 1 collateral. Haircuts on posted collateral are determined by FRBNY using methods consistent with current market practices.

Other Lending Facilities: Commercial Paper Funding Facility (CPFF)

Recent Developments

- A significant portion of maturing paper in the CPFF over recent weeks has not been rolled over.
- Improvements in market conditions may have allowed some borrowers to obtain financing from private investors in the commercial paper market or from other sources.

Background

The CPFF is a facility, authorized under section 13(3) of the Federal Reserve Act, that supports liquidity in the commercial paper markets. The CPFF provides a liquidity backstop to U.S. issuers of commercial paper through a specially created limited liability company (LLC) called the CPFF LLC. This LLC purchases three-month unsecured and asset-backed commercial paper directly from eligible issuers. The FRBNY provides financing to the LLC, and the FRBNY's loan to the LLC is secured by all of the assets of the LLC, including those purchased with the cumulated upfront fees paid by the issuers.

The CPFF was announced on October 7, 2008 and is administered by FRBNY, and the assets and liabilities of the LLC are consolidated onto the balance sheet of the FRBNY. The net assets of the LLC are shown in tables 1, 9, and 10 of the H.4.1 statistical release, and primary accounts of the LLC are presented in table 7 of the H.4.1. The Federal Reserve Board has authorized the extension of credit from the CPFF through October 30, 2009.

Table 15. CPFF— Concentration of Largest Issuers
For the four weeks ending May 27, 2009

Rank	Number of borrowers	Daily average borrowing ($ billions)
Rank by amount of commercial paper (CP)		
Top five issuers	5	57
Next five issuers	5	29
Other issuers	47	73
Total	57	159

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

Table 16. CPFF Commercial Paper Holdings by Type
As of May 27, 2009

Type of commercial paper	Value ($ billions)
Unsecured commercial paper	
Issued by financial firms	52
Issued by nonfinancial firms	*
Asset-backed commercial paper	94
Total	147

Note: Components may not sum to total because of rounding; does not include $4 billion in accumulated earnings invested in other liquid assets. * denotes less than $500 million.

Table 17. CPFF Collateral by Rating
As of May 27, 2009

Type of collateral	Value ($ billions)
Commercial paper with rating[1]	
A-1/P-1/F-1	143
Split-rated	3
Downgraded after purchase	*
Total	147

Note: Components may not sum to total because of rounding; does not include $4 billion of other investments.

1. The CPFF purchases only U.S. dollar-denominated commercial paper (including asset-backed commercial paper (ABCP)) that is rated at least A-1/P-1/F-1 by Moody's, S&P, or Fitch, and, if rated by more than one of these rating organizations, is rated at least A-1/P-1/F-1 by two or more. "Split-rated" is acceptable commercial paper that has received an A-1/P-1/F-1 rating from two rating organizations and a lower rating from a third rating organization. Some pledged commercial paper was downgraded below split-rated after purchase; the facility holds such paper to maturity. * denotes less than $500 million.

Table 18. AMLF Credit: Number of Borrowers and Amount Outstanding
Daily average for the four weeks ending May 27, 2009

Lending program	Number of institutions	Borrowing ($ billions)
Asset-Backed Commercial Paper Lending Facility (AMLF)	*	26

* Three or fewer borrowers.