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Staff Memo to Federal Reserve Board Members and Reserve Bank Presidents regarding the Monthly Balance Sheet Report Draft

Federal Reserve System

James Clouse

Maria Ambrosio

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FEDERAL RESERVE SYSTEM

Date: June 2, 2009
To: Board Members and Reserve Bank Presidents
From: Staff¹
Subject: Monthly Balance Sheet Report

Attached for your information is a draft report on the Federal Reserve's balance sheet prepared at the Chairman's request and under the direction of Vice Chairman Kohn as an additional step to enhance Federal Reserve transparency. The document will be distributed to the Congress and published on the Board's public website on a monthly basis beginning in the near future. The report will be discussed briefly at tomorrow's video conference.

¹ Questions may be directed to Jim Clouse at the Board of Governors and Maria Ambrosio at the Federal Reserve Bank of New York.

FEDERAL RESERVE SYSTEM

MONTHLY REPORT ON
CREDIT AND LIQUIDITY PROGRAMS AND
THE BALANCE SHEET

May 2009

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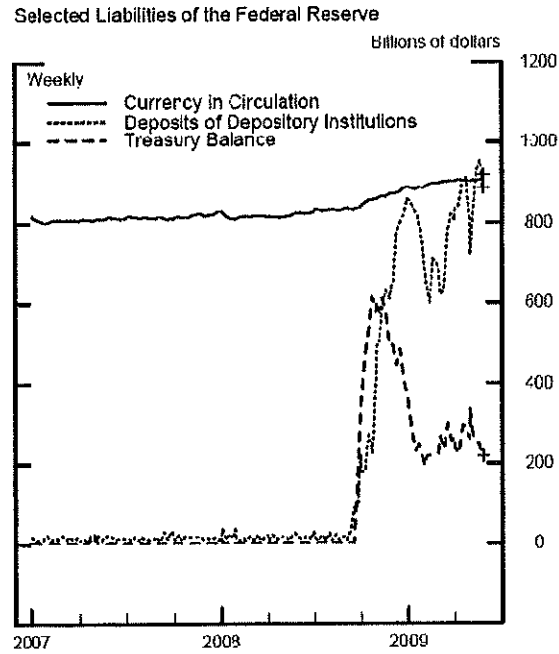
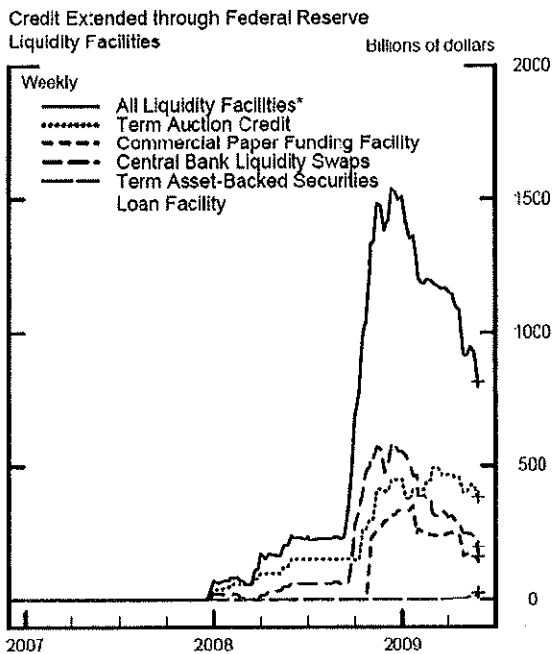
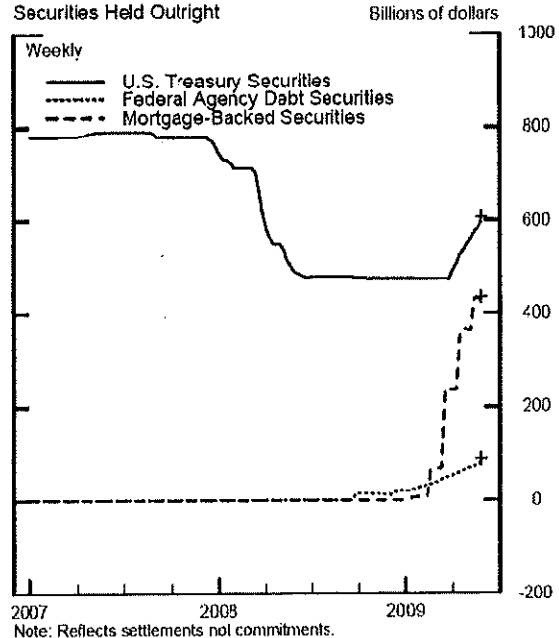
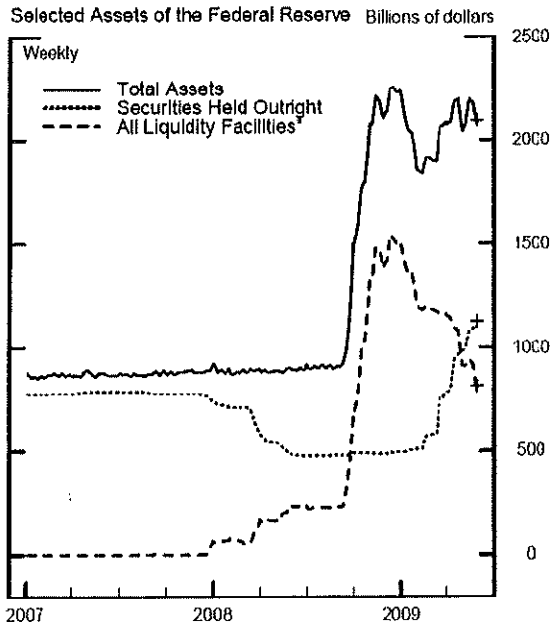
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OVERVIEW

RECENT DEVELOPMENTS

- Improvements in financial market conditions over recent weeks have been accompanied by a drop in credit extended through many of the Federal Reserve's liquidity programs.
- The decline in borrowing under the Primary Dealer Credit Facility (PDCF) and Term Securities Lending Facility (TSLF) has 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 usage of various lending programs has been roughly offset by increases in reserves associated with asset purchases.
- The Federal Reserve released audited financial statements for 2008 that received unqualified audit opinions from external auditors for all Reserve Banks and LLC entities (see the section "Financial Tables: Federal Reserve System").
- Recent quarterly revaluations resulted in markdowns in the aggregate fair value of assets held by Maiden Lane LLC, Maiden Lane II LLC, and Maiden Lane III LLC (see the section "Lending in Support of Specific Institutions").
- Investor interest in financing through the Term Asset Backed Securities Loan Facility (TALF) has increased over recent weeks. The Federal Reserve has announced the addition of new asset classes that are eligible for TALF financing and has extended the maximum term of loans available for certain classes of asset-backed securities (ABS).
- Developments concerning AIG included the firm's announcement of plans to separate its American International Underwriters (AIU) Holdings group in a special purpose vehicle, a modification of its credit arrangement with the Federal Reserve, and the resignation of its Chief Executive Officer.

FIGURE 1: CREDIT AND LIQUIDITY PROGRAMS AND THE FEDERAL RESERVE'S BALANCE SHEET



+ indicates most recent data point. Data are shown through 5/27/2009.
*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.

OMOs are outright purchases or sales of securities for the System Open Market Account, the Federal Reserve's portfolio. Temporary OMOs are typically used to address reserve needs that are deemed to be transitory in nature. These operations are either repurchase agreements (repos) or reverse repurchase agreements (reverse repos). Under a repo, the Trading Desk buys a security under an agreement to resell that security in the future. A repo is the economic equivalent to a collateralized loan, in which the difference between the purchase and sale prices reflects the interest on the loan.

Each OMO affects the Federal Reserve's balance sheet; the size and nature of the effect depends 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." The release separately reports securities held outright, repos, and reverse repos.

<http://www.federalreserve.gov/releases/h41/>

The Federal Reserve's approach to the implementation of monetary policy has evolved considerably since 2007, and particularly so since late 2008. The FOMC has established a near-zero target range for the federal funds rate, implying that the very large volume of reserve balances provided through the various liquidity facilities is consistent with the FOMC's funds rate objectives. In addition, open market operations have provided increasing amounts of reserve balances. To help reduce the cost and increase the availability of credit for the purchase of houses, on November 25, 2008, the Federal Reserve announced that it would buy direct obligations of Fannie Mae, Freddie Mac, and the Federal Home Loan Banks and mortgage-backed securities (MBS) guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. The Federal Reserve determined that supporting the mortgage-backed security "dollar roll" market promotes the goals of the mortgage-backed securities purchase program. Dollar roll transactions, which consist of a purchase of securities combined with an agreement to sell securities in the future, provide short-term financing to the mortgage-backed securities market. Because of principal and interest payments and occasional delays in the settlement of transactions, the Federal Reserve also has some uninvested cash associated with the mortgage-backed securities purchase program. The Federal Reserve's outright holdings of mortgage-backed securities are reported in tables 1, 3, 9, and 10 of the H.4.1 statistical release.

LIQUIDITY SWAPS

RECENT DEVELOPMENTS

- Usage of the Federal Reserve's foreign central bank liquidity swaps has declined noticeably in recent weeks, consistent with a general improvement of conditions in short-term funding markets.
- Total dollar liquidity extended to foreign central banks dropped to \$250 billion in the week ended April 29.

BACKGROUND

Because of the global character of bank funding markets, the Federal Reserve has worked with other central banks in providing liquidity to financial markets and institutions. As part of these efforts, the FRBNY has entered into agreements to establish temporary reciprocal currency arrangements (central bank liquidity swap lines) with a number of foreign central banks. Two types of temporary swap lines have been established—dollar liquidity lines and foreign-currency liquidity lines.

The FRBNY operates swap lines under the authority in section 14 of the Federal Reserve Act and in compliance with authorizations, policies, and procedures established by the Federal Open Market Committee (FOMC).

DOLLAR LIQUIDITY SWAPS

On December 12, 2007, the FOMC announced that it had authorized dollar liquidity swap lines with the European Central Bank and the Swiss National Bank to provide liquidity in U.S. dollars to overseas markets. Subsequently, the FOMC authorized dollar liquidity swap lines with additional central banks. These lines are now authorized with the following institutions: the Reserve Bank of Australia, the Banco Central do Brasil, the Bank of Canada, Danmarks Nationalbank, the Bank of England, the European Central Bank, the Bank of Japan, the Bank of Korea, the Banco de Mexico, the Reserve Bank of New Zealand, the Norges Bank, the Monetary Authority of Singapore, Sveriges Riksbank, and the Swiss National Bank. The FOMC has authorized these lines through October 30, 2009.

TABLE 3: AMOUNTS OUTSTANDING UNDER DOLLAR LIQUIDITY SWAPS

Central Bank	Amount (\$ billions) 4/29/2009	Amount (\$ billions) 12/31/2008
Bank of Canada	0	0
Banco de Mexico	3	0
European Central Bank	130	291
Swiss National Bank	12	25
Bank of Japan	40	123
Bank of England	13	33
Danmarks Nationalbank	6	15
Reserve Bank of Australia	4	23
Sveriges Riksbank	23	25
Norges Bank	5	8
Reserve Bank of New Zealand	0	0
Bank of Korea	14	10
Banco Central do Brasil	0	0
Monetary Authority of Singapore	0	0
Total	250	554

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 are 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 mirror the existing dollar liquidity swap lines, which provide foreign central banks with the capacity to offer U.S. dollar liquidity to financial institutions in their jurisdictions. If drawn upon, the foreign-currency swap lines would support operations by the Federal Reserve to address financial strains by providing 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 FOMC has authorized these liquidity swap lines through October 30, 2009. So far, the Federal Reserve has not drawn on these swap lines.

second step is identifying institutions whose condition, characteristics, or affiliation would present higher-than-acceptable risk to the Federal Reserve in the absence of controls on their access to Federal Reserve lending facilities and other Federal Reserve services. The third step is communicating—to staff within the Federal Reserve System and to other supervisory agencies, if and when necessary—relevant information about those institutions identified as posing higher risk. The fourth step is implementing appropriate measures to mitigate the risks posed by such entities.

At the heart of the condition monitoring process is an internal rating system that provides a framework for identifying institutions that may pose undue risks to the Federal Reserve. The rating system relies mostly on information from each institution's primary supervisor, including CAMELS ratings², to identify potentially problematic institutions and classify them according to the severity of the risk they pose to the Federal Reserve. 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 to do so.

TABLE 4: DISCOUNT WINDOW CREDIT OUTSTANDING TO DEPOSITORY INSTITUTIONS
Daily average borrowing for each class of borrower over four weeks ending April 29, 2009

Type and Size of Borrower	Average Number of Borrowers ¹	Average Borrowing (\$ billions)
Commercial Banks²		
Assets: more than \$50 billion	29	288
Assets: \$5 billion to \$50 billion	63	161
Assets: \$250 million to \$5 billion	144	23
Assets: less than \$250 million	84	1
Thrift institutions and credit unions	49	20
Total	369	492

Note: Includes primary, secondary, seasonal, and Term Auction Facility credit. Total domestic assets as of December 31, 2008. Components may not sum to total because of rounding.

¹ Average daily number of depository institutions with credit outstanding. Over this period, there a total of 549 institutions borrowed.

² Includes branches and agencies of foreign banks.

² CAMELS is a rating system employed by banking regulators to assess the soundness of depository institutions. CAMELS is an acronym that stands for Capital, Assets, Management, Earnings, Liquidity, and Sensitivity.

COLLATERAL PLEDGED BY DEPOSITORY INSTITUTIONS

RECENT DEVELOPMENTS

- Total collateral pledged by borrowing depository institutions exceeded \$1 trillion as of April 29, more than twice the amount of credit outstanding.
- The Federal Reserve announced updates to collateral valuations in early April and implemented the updates at the end of April. These changes reduced the lendable value of collateral in aggregate by about 10 percent.

BACKGROUND

All extensions of 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 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. \(320 KB PDF\)](#)*

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

TABLE 7: SECURITIES PLEDGED BY DEPOSITORY INSTITUTIONS BY RATING
As of April 29, 2009

Type of Security and Rating	Lendable Value (\$ billions)
U.S. Treasury, Agency and Agency-backed securities	130
Other securities	
AAA	209
Aa/AA ¹	50
A ²	69
Baa/BBB	28
Other investment-grade ³	100
Total	585

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; * denotes less than \$500 million.

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.

³ Determined based on credit review by Reserve Bank.

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

TABLE 8: DISCOUNT WINDOW CREDIT OUTSTANDING TO DEPOSITORY INSTITUTIONS - PERCENT OF COLLATERAL USED
As of April 29, 2009

Percent of Collateral Used	Number of Borrowers	Total Borrowing (\$ billions)
Over 0 and under 25	117	63
25 to 50	109	124
50 to 75	105	183
75 to 90	45	56
Over 90	16	23
Total	392	449

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.

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 are also reported in table 1A of the H.4.1 statistical release.

TABLE 9: CREDIT OUTSTANDING TO PRIMARY DEALERS

As of April 29, 2009

Number of Borrowers	Borrowing under Primary Dealer Credit Facility (PDCF) (\$ billions)	Borrowing under Term Securities Lending Facility (TSLF) (\$ billions)
6	1	33

Note: Borrowing figures represent total amounts of PDCF and TSLF credit extended on April 29, 2009. The total reported for the TSLF represents the par value of securities lent.

TABLE 10: CONCENTRATION OF BORROWING AT PDCF AND TSLF

As of April 29, 2009

	Number of Borrowers	Daily Average Borrowing (\$ billions)
Rank by amount of borrowing		
Top five	3	30
Next five	3	3
Other	0	0
Total	6	33

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.

TABLE 12: PRIMARY DEALER CREDIT FACILITY COLLATERAL BY RATING
As of April 29, 2009

Type of Collateral	Lendable Value (\$ billions)
U.S. Treasury/Agency securities	*
Other securities	
Aaa/AAA	*
Aa/AA	*
A	*
Baa/BBB	*
Ba/BB	*
B/B	*
Caa/CCC or below	*
Unrated securities	*
Equity	*
Total	1

Note: Collateral pledged by borrowers of PDCF and related credit to primary dealers as of the date shown. Credit on that date totaled \$1 billion. Lendable value is value after application of appropriate haircuts. Components may not sum to total because of rounding; * denotes less than \$500 million.

TABLE 13: TERM SECURITIES LENDING FACILITY (TSLF) COLLATERAL
As of April 29, 2009

Type of Collateral	Lendable Value (\$ billions)
Securities	
U.S. Treasury and Agency	0
Municipal	6
Corporate	11
MBS/CMO: Agency-backed	10
MBS/CMO: Other	6
Asset-backed	5
Total	38

Note: Collateral pledged by borrowers of TSLF as of the date shown. Borrowing on the date shown was \$33 billion. Lendable value is value after application of appropriate haircuts. Components may not sum to total because of rounding.

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 CP 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), 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 the cumulated up-front 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. The Federal Reserve Board has authorized the extension of credit from the CPFF through October 30, 2009.

OTHER LENDING FACILITIES: ASSET BACKED COMMERCIAL PAPER MONEY MARKET MUTUAL FUND LIQUIDITY FACILITY (AMLF)

RECENT DEVELOPMENTS

- The amount outstanding under the AMLF has generally declined over recent weeks in concert with the overall improvement in funding markets.
- The amount borrowed under the AMLF, however, jumped in the week prior to the release of the bank stress test results.

BACKGROUND

The AMLF is a lending facility that finances the purchases of high-quality asset-backed commercial paper (ABCP) from money market mutual funds by U.S. depository institutions and bank holding companies. The program is intended to assist money funds that hold such paper to meet the demands for redemptions by investors and to foster liquidity in the ABCP market and money markets more generally. The loans extended through the AMLF are non-recourse loans; as a result, the Federal Reserve has rights only to the collateral securing the loan if the borrower elects not to repay.

The initiation of the AMLF, announced on September 19, 2008, relied on authority under section 13(3) of the Federal Reserve Act. It is administered by the Federal Reserve Bank of Boston, which is authorized to make AMLF loans to eligible borrowers in all 12 Federal Reserve districts. Lending through the AMLF is presented in table 1 of the H.4.1 statistical release and is included in "Other loans" in tables 9 and 10. The Federal Reserve Board has authorized extension of credit through the AMLF until October 30, 2009.

**TABLE 19: ASSET-BACKED COMMERCIAL PAPER MONEY MARKET MUTUAL FUND LIQUIDITY FACILITY
COLLATERAL BY RATING**

As of April 29, 2009

Type of Collateral	VALUE (\$ billions)
Asset-backed Commercial Paper with Rating	
A-1/P-1/F-1	4
Downgraded after pledge ¹	0
Total	4

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

¹The AMLF accepts only U.S.-dollar denominated asset-backed commercial paper (ABCP) that is not rated lower than A-1, F-1, or P-1 by Moody's, S&P, or Fitch, and (effective April 22, 2009) is not on negative watch. Collateral not rated A-1/P-1/F-1 is ABCP that was downgraded after it was pledged.

the highest investment-grade rating category from a major rating agency. The loans provided through the TALF are non-recourse loans, the Federal Reserve has rights only to the collateral securing the loan in the event that the borrower elects not to repay. Borrowers commit their own risk capital in the form of “haircuts” against the collateral, which serve as the borrower’s equity in the transaction and act as a buffer for absorbing any decline in the collateral’s value in the event the loan is not repaid. The U.S. Treasury is providing protection against losses of up to \$20 billion to the FRBNY using funds authorized under the Troubled Assets Relief Program (TARP). The loan from the FRBNY is senior to the TARP funds. Thus, the TARP funds serve as a “first loss” position in the disposition special purpose vehicle in the event the borrower’s haircut does not absorb any decline in the collateral’s value.

On February 10, 2009, the Federal Reserve Board announced that it would consider expanding the size of the TALF to as much as \$1 trillion and potentially broaden the eligible collateral to encompass other types of newly issued AAA-rated asset-backed securities, such as ABS backed by commercial mortgages or private-label (non-agency) ABS backed by residential mortgages. Any expansion of the TALF would be supported by the Treasury providing additional funds from the TARP.

On March 19, the Federal Reserve Board announced that starting in April, the set of eligible collateral for TALF loans was being expanded to include ABS backed by loans or leases related to business equipment, leases of vehicle fleets, floorplan loans, and mortgage servicing advances.

On March 23, the Federal Reserve and the Treasury announced that they were planning on expanding the list of eligible collateral for TALF loans to include previously issued securities—so-called “legacy securities”— as a complement to the Treasury's Public Private Partnership Investment Program. Eligible securities are expected to include certain non-agency RMBS that were originally rated AAA and outstanding commercial mortgage-backed securities and ABS that are rated AAA.

On May 1, the Federal Reserve announced that, starting in June 2009, newly issued CMBS and securities backed by insurance premium finance loans would be eligible collateral under the TALF. The Federal Reserve also authorized TALF loans with maturities of five years, available for the June funding, to finance purchases of CMBS, ABS backed by student loans,

credit risk. In almost all cases, eligible collateral for a particular borrower must not be backed by loans originated or securitized by the borrower or by an affiliate of the borrower. The FRBNY will lend an amount equal to the market value of the ABS less a haircut; the FRBNY will be secured by the ABS. The Federal Reserve has set initial haircuts for each type of eligible collateral to reflect the riskiness and maturity of the various types of eligible collateral. In addition, the U.S. Treasury Department—under the Troubled Assets Relief Program (TARP) of the Emergency Economic Stabilization Act of 2008—will provide \$20 billion of credit protection to the FRBNY in connection with the TALF.

TABLE 20: NUMBER OF BORROWERS AND LOANS OUTSTANDING UNDER THE TALF
As of April 29, 2009

Lending Program	Number of Borrowers	Borrowing (\$ billions)
Term Asset-Backed Securities Loan Facility (TALF)	35	6

TABLE 21: TERM ASSET-BACKED SECURITIES LOAN FACILITY COLLATERAL BY UNDERLYING CREDIT EXPOSURE
As of April 29, 2009

Type of Collateral	Value (\$ billions)
Asset-backed securities backed by	
Auto loans	3
Student loans	0
Credit card receivables	4
Equipment loans	0
Auto floorplan loans	0
Other floorplan loans	0
SBA-guaranteed small business loans	0
Mortgage servicing advance receivables	0
Total	7

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

LENDING IN SUPPORT OF SPECIFIC INSTITUTIONSRECENT DEVELOPMENTS

- Recent quarterly revaluations resulted in a reduction to the fair value asset coverage of FRBNY loans to Maiden Lane LLC, Maiden Lane II LLC and Maiden Lane III LLC as follows:

TABLE 24: FAIR VALUE ASSET COVERAGE

(In millions)	Fair Value Asset Coverage of FRBNY Loan on 3/31/2009	Fair Value Asset Coverage of FRBNY Loan 12/31/2008
Maiden Lane LLC	(3,771)	(3,403)
Maiden Lane II LLC	(1,965)	(329)
Maiden Lane III LLC	(3,441)	2,824

Note: Fair value asset coverage is the amount by which the fair value of the assets in the portfolio of each LLC is greater or less than the outstanding balance of the loans extended by FRBNY. As noted in recent section 129 reports to Congress, the collateral assets for the loans to Maiden Lane, Maiden Lane II, and Maiden Lane III are expected to generate cash proceeds and will be sold over time. The Board does not expect that the loans to Maiden Lane, Maiden Lane II and Maiden Lane III will result in any losses for U.S. taxpayers.

BACKGROUND

In the current financial crisis, the Federal Reserve has extended credit to certain specific institutions in order to avert disorderly failures that could result in severe dislocations and strains for the financial system as a whole and harm the U.S. economy. In certain other cases, the Federal Reserve has committed to extend credit, if necessary, to support important financial firms.

BEAR STEARNS

In March 2008, the FRBNY and JPMorgan Chase & Co. entered into an arrangement related to the financing provided by the FRBNY to facilitate the merger of JPMC and the Bear Stearns Companies Inc. In connection with the transaction, the Federal Reserve Board authorized the FRBNY under section 13(3) of the Federal Reserve Act, to extend credit to a Delaware limited liability company, Maiden Lane LLC, to fund the purchase of a portfolio of mortgage related securities, residential and commercial mortgage loans, and associated hedges from Bear Stearns. In the second quarter of 2008, FRBNY extended credit to Maiden Lane LLC. Details of the terms of the loan are published on the FRBNY website

TABLE 27: MAIDEN LANE LLC ASSET DISTRIBUTION BY TYPE AND RATING

Security Type: ¹	Rating ¹					Gov't/ Agency	Total ³
	AAA	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and lower		
Agency CMOs	0.0	0.0	0.0	0.0	0.0	83.8	83.8
Non-Agency CMOs	2.2	0.2	0.8	0.4	5.4	0.0	9.1
Other ²	2.4	1.4	0.5	0.7	2.2	0.0	7.1
Total ³	4.6	1.6	1.3	1.1	7.6	83.8	100.0

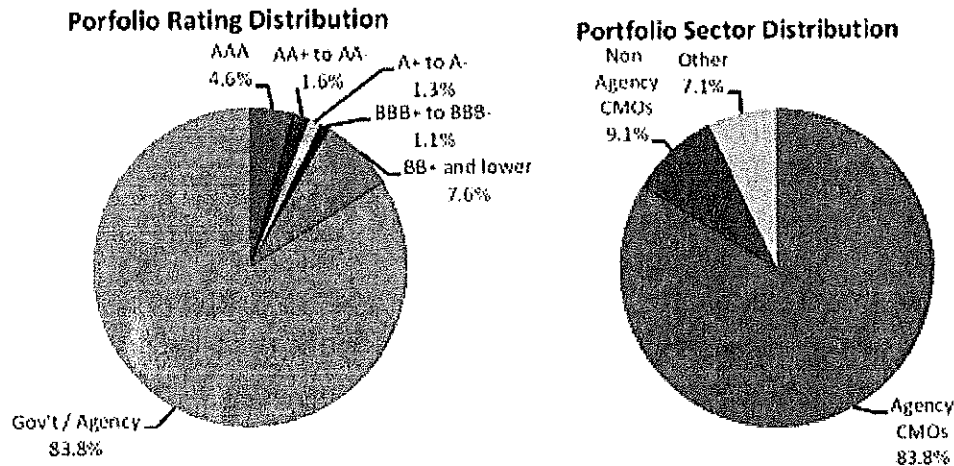
Note: Lowest of all ratings is used for purposes of this table; data are in percent.

¹ This table does not include the Maiden Lane LLC's swaps and other derivative contracts, commercial and residential mortgage loans and TBA investments.

² Includes all asset sectors that, individually, represent less than 5 percent of aggregate portfolio fair value.

³ Rows and columns may not total because of rounding.

FIGURE 2: MAIDEN LANE PORTFOLIO DISTRIBUTION



created, Maiden Lane II LLC and Maiden Lane III LLC. More detail on these two LLCs is reported below. Additional information is included in table 5 in the H.4.1 statistical release.

On March 2, 2009, the Federal Reserve and the Treasury announced a restructuring of the government's assistance to AIG. Specifically, the government's restructuring was 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 <http://www.federalreserve.gov/newsevents/press/other/20090302a.htm>.

FINANCIAL TABLES: AIG CREDIT FACILITY

On September 16, 2008, the Federal Reserve announced that it would lend to American International Group, Inc., (AIG) to provide AIG with the time and flexibility to execute a value-maximizing strategic plan. The terms of the facility were revised on November 10 and are discussed in the press release at

<http://www.federalreserve.gov/newsevents/press/other/20081110a.htm>. On March 2, the U.S. Treasury and Federal Reserve Board announced an AIG restructuring plan that will have implications for the credit facility. The restructuring plan is described at <http://www.federalreserve.gov/newsevents/press/other/20090302a.htm>

TABLE 28: AIG REVOLVING CREDIT FACILITY
As of April 29, 2009

Borrower	Borrowing (\$ billions)
AIG (Revolving Credit Facility)	45

Note: This lending is secured by a pledge of assets of AIG and its primary non-regulated 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 Federal Reserve Bank of New York are guaranteed by each of AIG's domestic, nonregulated subsidiaries that have more than \$50 million in assets. These guarantees themselves are separately secured by assets pledged to the Federal Reserve Bank of New York by the relevant guarantor. Additional subsidiaries of AIG may be added as guarantors over time. In light of the complexities involved in valuing the extremely broad and diverse range of collateral and guarantees securing these advances, any estimate of the aggregate value that ultimately will or may be received from the sale of collateral or the enforcement of the guarantees in the future would be speculative and 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. Given the substantial assets and operations supporting repayment of the loan, as well as the equity interest in AIG that the U.S. Treasury Department has received, the Federal Reserve does not expect that this lending to AIG will result in any net loss to the Federal Reserve or taxpayers.

The chart below displays credit extended to AIG over time through the credit facility including the principal, interest and commitment fees along with the facility ceiling.

TABLE 29: OUTSTANDING PRINCIPAL BALANCE OF SENIOR LOAN AND
FIXED DEFERRED PURCHASE PRICE
(\$ millions)

	Senior Loan	Fixed Deferred Purchase Price
Principal Balance at closing	\$19,494	\$1,000
Accrued and Capitalized Interest to 12/31/2008	27	3
Principal repayment from closing to 12/31/2008		
Principal Balance on 12/31/2008	19,522	1,003
Repayment during the period		
Accrued and Capitalized Interest to 3/31/2009	68	9
Repayment during the period	(952)	
Principal Balance on 3/31/2009	\$18,638	\$1,011

Note: As part of the asset purchase agreement, the AIG subsidiaries became entitled to receive from ML II a fixed deferred purchase price, plus interest on the amount. This obligation is subordinated to the senior loan extended by the FRBNY and reduced the amount paid by ML III for the assets by a corresponding amount.

TABLE 30: SUMMARY OF PORTFOLIO COMPOSITION AND CASH/CASH EQUIVALENTS
(\$ millions)

Type of Asset	Fair Value on 3/31/2009	Fair Value on 12/31/2008
Alt-A (ARM)	\$4,401	\$5,226
Subprime	9,744	10,796
Other ¹	2,226	2,817
Cash & Cash Equivalents ²	297	351
Total	\$16,668	\$19,190

¹Includes all asset sectors that, individually, represent less than 5% of aggregate outstanding fair value of the portfolio

²Including cash and cash equivalents on deposit in the Expense Reimbursement Sub-Account

As of March 31, 2009, the sector/rating composition of ML II LLC's \$16.4 billion RMBS portfolio, as a percentage of aggregate fair value, was as follows:

FINANCIAL TABLES: MAIDEN LANE III LLC

Under section 13(3) of the Federal Reserve Act, the Federal Reserve Board authorized the FRBNY to lend up to \$30 billion to a newly formed Delaware limited liability company, Maiden Lane III LLC, to fund the purchase of certain asset backed collateralized debt obligations (ABS CDOs) from certain counterparties of AIG Financial Products Corp. on which AIG Financial Products had written credit default swap and similar contracts. On November 25, 2008, the FRBNY loaned about \$24.4 billion to Maiden Lane III LLC. Details of the terms of the loan are published on the FRBNY website (<http://www.newyorkfed.org/markets/maidenlane3.html>).

The assets of the Maiden Lane III LLC are presented in tables 1, 9, and 10 of the H.4.1 statistical release. Additional detail on the accounts of Maiden Lane III LLC is presented in table 6 of the H.4.1 statistical release.

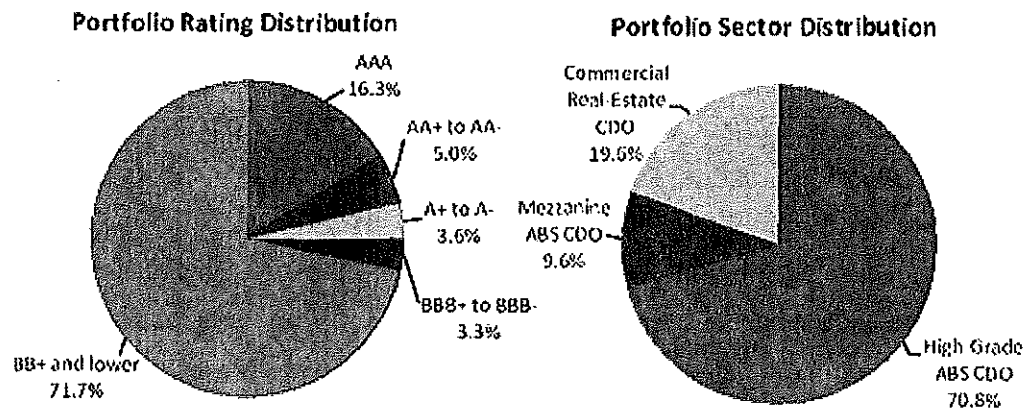
Information about the assets and liabilities of Maiden Lane III LLC are outlined below. This data is as of March 31, 2009 and is updated on a quarterly basis.

TABLE 32: OUTSTANDING PRINCIPAL BALANCE OF SENIOR LOAN AND EQUITY CONTRIBUTION
(\$ millions)

	Senior Loan	Equity Contribution
Principal Balance at Closing	24,339	5,000
Accrued and Capitalized Interest to 12/31/2008	45	22
Principal repayment from closing to 12/31/2008	-	-
Principal Balance on 12/31/2008	24,384	5,022
Accrued and Capitalized Interest to 3/31/2009	87	43
Repayment during the period	(304)	-
Principal Balance on 3/31/2009	24,168	5,065

Note: As part of the asset purchase agreement, AIG purchased a \$5 billion equity contribution, which is subordinated to the senior loan extended by FRBNY.

FIGURE 4: MAIDEN LANE III LLC PORTFOLIO DISTRIBUTION

**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 are provided on the Federal Reserve Board's website. (http://www.federalreserve.gov/monetarypolicy/bst_supportspecific.htm) Because the FRBNY has not extended credit to Citigroup under this arrangement, the commitment is not reflected in the H.4.1 statistical release.

BANK OF AMERICA

On January 16, 2009, the Treasury, the Federal Reserve, and the FDIC jointly announced that the U.S. government would provide support to Bank of America to support financial market stability. The terms of the support are provided on the Federal Reserve Board's website. (http://www.federalreserve.gov/monetarypolicy/bst_supportspecific.htm). Because the Federal Reserve has not extended credit to Bank of America under this arrangement, the commitment is not reflected in the H.4.1 statistical release.

The Board of Governors' financial statements are audited annually by an independent audit firm retained by the Board's Office of Inspector General. The audit firm also provides a report on compliance and on internal control over financial reporting in accordance with government auditing standards. The Office of Inspector General 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 http://www.federalreserve.gov/monetarypolicy/bst_fedfinancials.htm. On a quarterly basis, the Federal Reserve prepares unaudited updates of tables presented in the annual financial statements. Tables 33 through 35 below present information for the SOMA portfolio, the Federal Reserve loan programs, and the so-called "variable interest entities"—the CPEF and Maiden Lane I, II, and III for the first quarter of this year. These data are not audited and will be provided on a quarterly basis between the release dates for the audited annual financial statements.

FINANCIAL TABLES

SOMA FINANCIAL SUMMARY

The following table shows the Federal Reserve's net assets and liabilities of the SOMA portfolio as of March 31, 2009, the related interest income and expense, and the unrealized and realized gains for the quarter. U.S. government, federal agency, and government-sponsored enterprise securities and investments denominated in foreign currencies comprising the SOMA portfolio are recorded at amortized cost, on a settlement-date basis. Rather than using a fair value presentation, amortized cost more appropriately reflects the Reserve Bank's securities holdings given the Federal Reserve's unique responsibility to conduct monetary policy. Differences between fair value and amortized cost have no direct effect on the ability of the Reserve Banks, as central banks, to meet their financial obligations and responsibilities, the quantity of reserves available to the banking system, or the prospects for future Reserve Bank earnings or capital.

Purchases and sales of U.S. government securities are conducted by the FRBNY under authorization and direction from the FOMC. The securities are bought from or sold to securities dealers and foreign and international accounts maintained at FRBNY at market prices. The Federal Reserve is also authorized by the FOMC to acquire U.S. government

TABLE 35: SOMA FINANCIAL SUMMARY
As of March 31, 2009

SOMA Holdings (\$millions)	Balance	Interest income / (expense)	Realized gains (losses)	Unrealized gains (losses)	Total Earnings
SOMA Assets					
U.S. government, federal agency, and government-sponsored enterprise securities, net	542,716	3,918			3,918
Securities purchased under agreements to resell		12			12
Mortgage-backed securities	237,423	878	(2)		876
Investments denominated in foreign currencies	23,328	87		(1,562)	(1,475)
Central bank liquidity swaps	309,917	1,271			1,271
SOMA Liabilities					
Securities sold under agreements to resell	(70,590)	(35)			(35)
Total SOMA Holdings	1,042,794	6,182	(53)	(1,562)	4,567

Note: Unrealized gains and losses result from the daily revaluation of the currency.

LOAN PROGRAMS

The accompanying table summarizes the loan balances and interest income of the Federal Reserve for the first quarter of 2009. The most significant loan balance is the TAF, which was established at the end of 2007. As noted earlier in this report, during 2008, the Federal Reserve established several lending facilities under authority of section 13(3) of the Federal Reserve Act. These included the AMLF, the PDCF, and credit extended to AIG. Amounts funded by the Reserve Banks under these programs are recorded as loans by the Reserve Banks. The Federal Reserve earned \$ 1.2 billion of interest income from these loan programs during the first quarter of 2009. 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, 2009, no loans were impaired, and an allowance for loan losses was not required.

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 be incurred by the beneficiaries if the assets had been fully liquidated at prices equal to the fair value as of March 31, 2009.

TABLE 37: ASSETS AND LIABILITIES OF CONSOLIDATED VARIABLE INTEREST ENTITIES
As of March 31, 2009

Consolidated LLCs (\$ millions)	CPFF	ML	ML II	ML III	Total Maiden Lane VIEs
Net portfolio assets and loans of the consolidated LLCs					
<i>Assets and liabilities of the consolidated LLCs and the net position of senior and subordinated interest holder</i>					
Net portfolio assets	249,050	30,702	16,675	20,732	68,109
Other Liabilities of consolidated LLCs	(500)	(5,350)	(2)	(5)	(5,357)
Net portfolio assets available	248,550	25,352	16,673	20,727	62,752
Loans extended to the consolidated LLCs by FRBNY	245,767	29,123	18,638	24,168	71,929
Other beneficial interests ¹		1,202	1,012	5,065	7,279
Total loans	245,767	30,325	19,650	29,233	79,208
Cumulative change in net assets since the inception of the programs					
<i>Allocation of the change in net assets to interest holders</i>					
Allocated to FRBNY	2,783	(3,771)	(1,965)	(3,441)	(9,177)
Allocated to other beneficial interests		(1,202)	(1,012)	(5,065)	(7,279)
Cumulative change in net assets	2,783	(4,973)	(2,977)	(8,506)	(16,456)
Current period income of the consolidated LLCs					
<i>Summary of consolidated LLC net income for the current year, through March 31, 2009, including a reconciliation of total consolidated LLC net income to the consolidated LLC net income recorded by FRBNY</i>					
Portfolio interest income	2,151	437	270	731	1,438
Interest expense on loans extended by FRBNY ²	(438)	(36)	(68)	(87)	(191)
Interest expense - other		(14)	(9)	(43)	(66)
Portfolio holdings gains (losses)	6	(757)	(1,835)	(6,903)	(9,495)
Professional fees	(14)	(12)	(3)	(6)	(21)
Net income (loss) of consolidated LLCs	1,705	(382)	(1,645)	(6,308)	(8,335)
Less: Net income (loss) allocated to other beneficial interests		(14)	(9)	(2,867)	(2,890)
Net income (loss) allocated to FRBNY	1,705	(368)	(1,636)	(3,441)	(5,445)
Add: Interest expense on loans extended by FRBNY, eliminated in consolidation ²	438	36	68	87	191
Net income (loss) recorded by FRBNY	2,143	(332)	(1,568)	(3,354)	(5,254)

¹ Other beneficial interest related to Maiden Lane LLC is JPMC and Maiden Lane II LLC and Maiden Lane III LLC is AIG.

² Interest expense recorded by each VIE on the loans extended by FRBNY is eliminated when the VIEs are consolidated in FRBNY's financial statements and, as a result, the consolidated VIEs' net income (loss) recorded by FRBNY is increased by this amount