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### Federal Reserve Board of Governors July 13 to December 16, 2008 Meeting Minutes

Federal Reserve System: Board of Governors

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**DISCOUNT WINDOW LENDING -- Proposal to lend to Fannie Mae and Freddie Mac through advances secured by obligations of the United States or any U.S. agency.**

**Approved.  
July 13, 2008.**

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Today, the Board considered a proposal to authorize the Federal Reserve Bank of New York to make advances, if it determines that such lending is necessary, to the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) under section 13(13) of the Federal Reserve Act. The proposal was presented against the background of (1) potential difficulties for the companies to obtain funding in financial markets, which are currently under unusual stress, and (2) a three-part plan proposed by the Department of the Treasury (Treasury) to take action immediately to address the situation. Board members generally agreed that the companies' potential difficulties in obtaining funds posed concerns about a possible systemic threat to financial stability and threatened to undermine further the functioning of residential mortgage markets and thus impede economic growth.

Under the terms of the proposal, advances would be made on the companies' promissory notes, which would be secured by direct obligations of the United States or by obligations that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States. Each advance would be for a period not to exceed 90 days. The Board approved the recommendation of the New York Reserve Bank that advances be made at the primary credit rate. It was noted that the authorization was intended to supplement Treasury's authority to lend directly to Fannie Mae and Freddie Mac. Board members agreed that the authorization should only be used to provide backup liquidity to those companies and should only authorize loans to Fannie Mae and Freddie Mac.

Board members also reviewed Treasury's three-part plan and its proposed consultative role for the Federal Reserve to protect the financial system from systemic risk going forward. Board members favored strengthening the authority of the new regulator for the two companies and were agreeable to a consultative role for the Federal Reserve with the new regulator on certain supervisory matters.

At the conclusion of the discussion, the Board approved the proposed authorization to make discount window loans to Fannie Mae and Freddie Mac under the terms and circumstances discussed above. (NOTE: On September 7, 2008, the Federal Housing Finance Agency announced that Fannie Mae and Freddie Mac had been placed into conservatorship).

**Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and  
Governors Warsh, Kroszner, and Mishkin.**

**Background:** Draft resolution authorizing discount window loans to Fannie Mae and Freddie Mac, July 13, 2008.

**Implementation:** Resolution and press release, July 13, 2008.

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**FINANCIAL MARKETS -- Proposals (1) to enhance the Primary Dealer Credit Facility and the Term Securities Lending Facility and (2) to temporarily provide a complementary exemption from restrictions in section 23A of the Federal Reserve Act and the Board's Regulation W.**

**Discussed.  
Approved.  
September 14, 2008.**

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Today, staff discussed with the Board proposed enhancements to the Primary Dealer Credit Facility (PDCF) and Term Securities Lending Facility (TSLF) to address potential market vulnerabilities that might result from an unwinding of the assets of a major financial institution. The proposals would provide additional support to financial markets, particularly the market for tri-party repurchase agreements, by broadening the collateral accepted by both facilities.

Board members' discussion of the proposals included consideration of their effect on the capital ratios of banks and bank holding companies, the potential risk of loss and likely administrative issues for the Federal Reserve under the proposals, and the proposals' possible effect on the incentives for market participants to secure other financing. Board members agreed that the proposals presented the best alternative for mitigating potential risks and disruptions to financial markets.

In light of the unusual and exigent circumstances that have continued since the Board authorized the PDCF at its meeting on March 16 and the TSLF by notation voting on March 11, 2008, and under section 13(3) of the Federal Reserve Act, the Board modified its prior authorizations to the Federal Reserve Bank of New York to permit (1) credit to primary dealers under the PDCF to be secured by any collateral that is accepted by the tri-party repurchase agreement systems of JPMorgan Chase & Co. or The Bank of New York Company, Inc. as of September 12, 2008, subject to any exclusions or modifications determined by the Chairman, and (2) Treasury securities lent to primary dealers under the TSLF to be secured by a pledge of any investment-

grade debt securities. All other conditions of the Board's initial authorizations for both facilities remain in effect. (NOTE: The Board extended its authorizations for the PDCF and the TSLF until April 30, 2009, by notation voting on November 24, 2008. As required by section 129 of the Emergency Economic Stabilization Act of 2008, the Board approved reports of these modifications to the Congress on November 3 and approved a periodic report that updated these reports by notation voting on December 29, 2008. At its meeting on January 27, 2009, the Board extended its authorizations for the PDCF and TSLF until October 30, 2009. The Federal Open Market Committee also authorized the extensions for the TSLF.)

Board members also approved temporarily providing a complementary exemption from the limitations on transactions with affiliates under section 23A of the Federal Reserve Act and the Board's Regulation W (Transactions Between Member Banks and Their Affiliates), subject to the Chairman's concurrence, in consultation with the Committee on Supervisory and Regulatory Affairs, on the text of an interim final rule with a request for public comment. The exemption would allow any insured depository institution to provide liquidity to its affiliate for assets typically funded in the tri-party repurchase agreement market, subject to certain safety-and-soundness conditions, and would expire on January 30, 2009, unless extended by the Board. (NOTE: The Board approved a final rule that extended the expiration date for the exemption to October 30, 2009, by notation voting on January 27, 2009.)

**Participating in these determinations and voting for these actions:  
Chairman Bernanke, Vice Chairman Kohn, and  
Governors Warsh, Kroszner, and Duke.**

**Background:** Proposed resolutions, September 14, 2008.

**Implementation:** Resolutions, press release, and Federal Register document (Docket No. R-1330), September 14, 2008.

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**FINANCIAL MARKETS -- Extension of credit to American International Group, Inc.**

**Discussed.  
Approved.  
September 16, 2008.**

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Today, the Board discussed the funding difficulties of American International Group, Inc. (AIG), New York, New York. The evidence available to the Board indicated that AIG, a provider of a wide range of products for both institutional investors and consumers to protect against casualty and financial losses, had experienced a rapid

and extreme liquidity shortage. Available evidence also indicated that the company faced the imminent prospect of declaring bankruptcy.

The ensuing discussion of the Board members included consideration of the effect of AIG's disorderly failure on financial markets, the position of the Department of the Treasury on an extension of credit to AIG, and the circumstances presented by this situation as compared with situations recently confronted by the Board. Board members agreed that the disorderly failure of AIG was likely to have a systemic effect on financial markets that were already experiencing a significant level of fragility and that the best alternative available was to lend to AIG to assist it in meeting its obligations in an orderly manner as they came due. Board members also agreed that the terms of the loan should best protect the interests of the U.S. government and taxpayers. Their discussion of terms included collateralizing the loan with all the assets of AIG, receiving a 79.9 percent equity interest in AIG, and reserving the right to veto the payment of dividends to common and preferred shareholders.

Given the unusual and exigent circumstances, the Board authorized the Federal Reserve Bank of New York under section 13(3) of the Federal Reserve Act to extend credit to AIG or any of its subsidiaries, in an amount up to \$85 billion, if the New York Reserve Bank obtains evidence that the borrower is unable to secure adequate credit accommodations from other banking institutions. The credit should be secured to the satisfaction of the New York Reserve Bank and should not exceed a period of 24 months, subject to extension by the Reserve Bank after consultation with the Board. The New York Reserve Bank may, as it deems appropriate, impose conditions on its extension of credit to AIG, such as those described in the proposed Summary of Terms for Senior Bridge Facility (Agreement). The Board also approved the recommendation of the New York Reserve Bank that credit be extended at the rate in the proposed Agreement. (NOTE: As required by section 129 of the Emergency Economic Stabilization Act of 2008, the Board approved a report of this action to the Congress by notation voting on November 3, 2008. The Board authorized the Federal Reserve Bank of New York to borrow securities in an amount of up to \$37.8 billion from certain insurance subsidiaries of AIG at its meeting on October 6, 2008.)

**Participating in these determinations and voting for these actions:**

**Chairman Bernanke, Vice Chairman Kohn, and  
Governors Warsh, Kroszner, and Duke.**

**Background:** Proposed resolution and Agreement, September 16, 2008.

**Implementation:** Resolution and press release, September 16, 2008.

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**FINANCIAL MARKETS -- Proposals (1) to finance purchases of asset-backed commercial paper from money market mutual funds and (2) to temporarily provide**

**complementary exemptions from restrictions in sections 23A and 23B of the Federal Reserve Act and the Board's Regulation W and from the Board's leverage and risk-based capital guidelines.**

**Discussed.  
Approved.  
September 19, 2008.**

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Today, the staff presented a proposal to establish a facility that would extend nonrecourse secured credit to depository institutions and bank holding companies seeking to finance their purchases of high-quality asset-backed commercial paper (ABCP) from money market mutual funds (MMMFs). The evidence available to the Board indicated that MMMFs were facing severe difficulty in obtaining funding to meet current cash demands. Available evidence also indicated that conditions in the secondary market for ABCP were illiquid, which made it difficult for MMMFs, among others, to obtain adequate credit accommodations from other banking sources to fund ABCP assets.

It was noted in the ensuing discussion that the proposed facility was expected to assist MMMFs that hold ABCP to meet demands for redemptions by investors and to foster liquidity in the ABCP market. Board members' discussion of the proposal included consideration of the current disruption in the market for ABCP and the potential risk of loss and operational issues for the Federal Reserve under the proposal.

Given the unusual and exigent circumstances, the Board authorized the Federal Reserve Bank of Boston under sections 13(3) and 10B of the Federal Reserve Act to extend credit on a nonrecourse basis to depository institutions and bank holding companies secured by U.S. dollar-denominated ABCP that (1) the depository institution or bank holding company purchased at amortized cost from a registered investment company that holds itself out as a money market mutual fund under SEC Rule 2a-7, issued under the Investment Company Act of 1940; (2) meets the definition of First Tier Securities under Rule 2a-7; and (3) is issued by a United States issuer. The extension of credit may be made if the Boston Reserve Bank obtains evidence that the borrower is unable to secure adequate credit accommodations from other banking institutions, and the term of the extension of credit should not exceed the maturity of the ABCP that is securing the extension of credit. No new extensions of credit may be made after January 30, 2009. The extension of credit should be secured to the satisfaction of the Boston Reserve Bank and subject to such conditions as the Reserve Bank deems appropriate, including conditions regarding safekeeping of the ABCP. The Board also approved the recommendation of the Boston Reserve Bank that the credit be extended at the primary credit rate. (NOTE: This facility was established as the Asset-Backed

Commercial Paper Money Market Mutual Fund Liquidity Facility, or AMLF. The Board extended its authorization for the AMLF until April 30, 2009, by notation voting on November 24, 2008. As required by section 129 of the Emergency Economic Stabilization Act of 2008, the Board approved a report of the facility's establishment to the Congress on November 3 and approved a periodic report that updated this report by notation voting on December 29, 2008. At its meeting on January 27, 2009, the Board extended its authorization for the AMLF until October 30, 2009.)

Board members also discussed with the staff two complementary exemptions, both temporary and subject to certain conditions, from regulatory requirements under (1) sections 23A and 23B of the Federal Reserve Act and the Board's Regulation W (Transactions Between Member Banks and Their Affiliates) and (2) the Board's leverage and risk-based capital guidelines. The exemptions were intended to facilitate participation by banking organizations in the proposed facility as intermediaries between the Federal Reserve and MMMFs and would expire on January 30, 2009, unless extended by the Board. The Board approved granting the proposed exemptions by interim final rules with requests for public comments, in consultation with the other federal banking supervisors. The Board also delegated the authority to the director of the Division of Banking Supervision and Regulation and the General Counsel, in consultation with the chairman of the Committee on Supervisory and Regulatory Affairs, to grant exemptions under sections 23A and 23B of the Federal Reserve Act and the Board's Regulation W during the next two weeks for ABCP transactions with MMMF affiliates that did not use the proposed facility. (NOTE: By notation voting on January 27, 2009, the Board approved final rules to conform with the extension of the AMLF.)

**Participating in these determinations and voting for these actions:**

**Chairman Bernanke, Vice Chairman Kohn, and  
Governors Warsh, Kroszner, and Duke.**

**Background:** Proposed resolution, September 19, 2008.

**Implementation:** Resolution, press releases, and Federal Register documents (Docket Nos. R-1331 and R-1332), September 19, 2008.

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**GOLDMAN SACHS, MORGAN STANLEY, and MERRILL LYNCH -- Applications by Goldman Sachs and Morgan Stanley to become bank holding companies and authorizations to increase liquidity support for certain securities subsidiaries of Goldman Sachs, Morgan Stanley, and Merrill Lynch.**

**Discussed.  
Approved.  
Issuance of orders authorized.  
September 21, 2008.**

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Today, the Board considered applications by the following organizations to become bank holding companies: (1) The Goldman Sachs Group, Inc. and Goldman Sachs Bank USA Holdings LLC (together, Goldman Sachs), both in New York, New York, on the conversion of Goldman Sachs Bank USA, Salt Lake City, Utah, from an industrial loan company to a state-chartered bank; and (2) Morgan Stanley, Morgan Stanley Capital Management LLC, and Morgan Stanley Domestic Holdings, Inc. (together, Morgan Stanley), all in New York, New York, on the conversion of Morgan Stanley Bank, also in Salt Lake City, from an industrial loan company to a bank.

In the ensuing discussion, it was noted that under the Bank Holding Company Act, newly formed bank holding companies had two years to divest impermissible nonbanking activities, with the possibility of three one-year extensions of the divestiture period. It was also expected that the extent of the required divestitures for these companies would depend in large measure on whether they elected to become financial holding companies after becoming bank holding companies. Thereupon, the Board approved the applications of Goldman Sachs and Morgan Stanley to become bank holding companies and authorized issuing orders, with the concurrence of the chairman of the Committee on Supervisory and Regulatory Affairs, to reflect its actions.

Board members also discussed the need for additional liquidity support for Goldman Sachs and Morgan Stanley, during their transition to managing their funding within the structure of a bank holding company, and to Merrill Lynch & Company, Inc., (Merrill Lynch), also in New York. It was noted that the Board retained the authority to revoke such support, if warranted by market conditions.

Given the unusual and exigent circumstances, the Board authorized the Federal Reserve Bank of New York under section 13(3) of the Federal Reserve Act to extend credit, as described below, (1) to the U.K. broker-dealer subsidiaries of Goldman Sachs, Morgan Stanley, and Merrill Lynch and (2) to the primary-dealer subsidiaries of Goldman Sachs, Morgan Stanley, and Merrill Lynch, if the New York Reserve Bank obtains evidence that the borrower is unable to secure adequate credit accommodations from other banking institutions. Credit extensions under these authorizations must be fully secured to the satisfaction of the New York Reserve Bank and must be secured by the types of collateral accepted (1) at the Primary Dealer Credit Facility (PDCF) by the Reserve Bank, for the U.K broker-dealer subsidiaries, and (2) at the primary credit facility for depository institutions or at the PDCF by the Reserve Bank, for the primary-dealer subsidiaries. The New York Reserve Bank may also impose



such additional conditions on any extension of credit as the Reserve Bank deems appropriate. In addition, the Board approved the recommendation of the New York Reserve Bank that credit to Goldman Sachs, Morgan Stanley, and Merrill Lynch be extended at the primary credit rate. (NOTE: As required by section 129 of the Emergency Economic Stabilization Act of 2008, the Board approved a report of this action to the Congress by notation voting on November 3 and approved a periodic report to the Congress updating this action by notation voting on December 29, 2008.)

**Participating in these determinations and voting for these actions:**

**Chairman Bernanke, Vice Chairman Kohn, and  
Governors Warsh, Kroszner, and Duke.**

**Background:** Proposed resolutions, September 21, 2008.

**Implementation:** Resolutions and orders, September 21; press releases, September 21 and 22; and letter from Mr. Frierson to Morgan Stanley, September 22, 2008.

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**WACHOVIA CORPORATION -- Proposal to invoke the systemic-risk exception in a Federal Deposit Insurance Corporation resolution of Wachovia's financial difficulties.**

**Discussed.  
Approved.  
September 28, 2008.**

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Today, the Board considered whether the financial difficulties of Wachovia Corporation (Wachovia) and its subsidiary bank, Wachovia Bank, National Association (Wachovia Bank), both in Charlotte, North Carolina, warranted invoking the systemic-risk exception to the least-cost-resolution requirements in the Federal Deposit Insurance Act. Under the act, the Federal Deposit Insurance Corporation (FDIC) is generally required to resolve troubled insured depository institutions in a manner that is least costly to the deposit insurance fund.

Evidence available to the Board indicated that Wachovia was a large and complex financial holding company, with total consolidated assets of approximately \$812 billion, and the fourth-largest banking organization in the United States. Available evidence also indicated that Wachovia was experiencing funding difficulties that were depleting its liquidity reserves. It was noted that Wachovia faced the immediate prospect of being unable to fund its operations. In light of the magnitude of Wachovia Bank's projected losses, it was expected that any action or assistance by the FDIC

under the least-cost-resolution requirements would impose significant haircuts on the bank's subordinated debt holders and possibly its senior debt holders.

Board members' discussion of invoking the systemic-risk exception included consideration of the likely effects that a least-cost resolution of Wachovia Bank by the FDIC would have on banking institutions and financial markets; the treatment of senior and subordinated debt holders in FDIC resolutions under the least-cost-resolution requirements and the systemic-risk exception; and the competing proposals by Citigroup Inc., New York, New York, and Wells Fargo & Company (Wells Fargo), San Francisco, California, to acquire Wachovia. In light of all the facts and circumstances, including the condition of the financial markets and the state of the U.S. economy, the Board determined that the FDIC's compliance with the least-cost-resolution requirements with respect to Wachovia Bank and its insured depository institution affiliates would have serious adverse effects on economic conditions and financial stability. The Board also determined that action or assistance by the FDIC as permitted under the systemic-risk exception would avoid or mitigate such adverse effects.

It was understood that the Secretary of the Treasury would be advised of the Board's determinations, in accordance with the statutory procedures for invoking the systemic-risk exception. (NOTE: The Board approved Well Fargo's acquisition of Wachovia by notation voting on October 12 and issued a statement regarding its approval on October 21, 2008.)

**Participating in these determinations and voting for this action:**  
**Chairman Bernanke, Vice Chairman Kohn, and**  
**Governors Warsh, Kroszner, and Duke.**

**Background:** Staff memorandum and overview of the senior and subordinated debt held by Wachovia and Wachovia Bank, September 28, 2008.

**Implementation:** Letter from Chairman Bernanke to Mr. Paulson, Secretary of the Treasury, September 28, 2008.

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**FINANCIAL MARKETS -- Discussion of (1) developments in the proposals by Citigroup Inc. and Wells Fargo & Company to acquire Wachovia Corporation and (2) options for reducing funding pressures in the commercial paper market.**

**Discussed.**  
**October 3, 2008.**

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Today, the Board discussed the following matters against the background of the significant level of fragility in financial markets: (1) developments in the competing proposals by Citigroup Inc. (Citigroup), New York, New York, and Wells Fargo & Company (Wells Fargo), San Francisco, California, to acquire Wachovia Corporation (Wachovia), Charlotte, North Carolina; and (2) options for reducing funding pressures in the market for commercial paper.

*Proposals to acquire Wachovia.* The staff reviewed recent events in the efforts by Citigroup and Wells Fargo to acquire Wachovia and responded to Board members' requests for additional information about the terms of each proposal. The Board's ensuing discussion included consideration of the capital positions of Citigroup and Wells Fargo, possible assistance from the Federal Deposit Insurance Corporation (FDIC) for Citigroup's proposal to acquire Wachovia's insured depository institutions only, the competitive position of the resulting entity under either proposal, and the overall systemic effects of the acquisition of Wachovia. It was expected that one of the proposals would ultimately prevail and be presented to the Board for approval. (NOTE: The Board approved Wells Fargo's acquisition of Wachovia on October 12 by notation voting and issued a statement regarding its approval on October 21, 2008.)

*Options for the commercial paper market.* The staff also presented two options for reducing funding pressures in the market for commercial paper. The first proposal would establish a special discount window facility, the Term Funding Financing Facility (TFFF), to provide a financial incentive for depository institutions to purchase term commercial paper and banks' wholesale term certificates of deposit by offering credit on favorable terms through the TFFF. The TFFF could be established either as a standing facility or an auction facility. The second proposal would establish a conduit facility for commercial paper to provide term financing by buying and holding commercial paper issued by financial and nonfinancial companies until market conditions returned to normal.

Board members' discussion of these options included consideration of whether pressures in the commercial paper market reflected the credit quality of commercial paper more than a lack of liquidity, a framework for further consultations with the FDIC on lowering the risk weighting of commercial paper purchased by banks, and the possible participation by the Department of the Treasury in the conduit facility for commercial paper. Board members generally agreed that further consultations were needed with the appropriate agencies before going forward with either proposal. (NOTE: The Board approved the Commercial Paper Funding Facility (CPFF) in principle at its meeting on October 5, approved establishing the CPFF at its meeting on October 7, and agreed to announce additional details regarding the CPFF at its meeting on October 13, 2008.)

**Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Duke.**

**Background:** Proposals for the Term Funding Financing Facility and a financial commercial paper conduit, October 3, 2008.

**Implementation:** None.

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**FINANCIAL MARKETS -- Proposal to provide liquidity directly to money market mutual funds through the Direct Money Market Mutual Fund Lending Facility.**

**Discussed.  
Approved.  
October 3, 2008.**

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The Board had approved a proposal to finance purchases by depository institutions and bank holding companies of high-quality asset-backed commercial paper from money market mutual funds (MMMFs) at its meeting on September 19, 2008 (the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, or AMLF). Today, staff presented the proposed Direct Money Market Mutual Fund Lending Facility (DMLF) as a means of providing direct support to qualifying MMMFs to meet redemption requests and to avoid distressed sales of high-credit-quality assets that were currently illiquid.

Available evidence showed that MMMFs continued to face difficulty obtaining funding to meet cash demands and that the secondary market for high-quality commercial paper continued to be illiquid. The DMLF was proposed as a way to provide liquidity to MMMFs by lending directly to them. Board members' discussion of the DMLF included consideration of the positive and negative preliminary views of interested parties, the possible advantages of the DMLF over the existing AMLF, and the diversification of authority for implementing lending facilities among the Reserve Banks.

Given the unusual and exigent circumstances, the Board authorized the Federal Reserve Banks of Atlanta and Chicago under section 13(3) of the Federal Reserve Act to extend credit to qualifying MMMFs if these Reserve Banks obtain evidence that the borrower is unable to secure adequate credit accommodations from other banking institutions. The credit should be secured to the satisfaction of the Atlanta and Chicago

Reserve Banks. The Atlanta and Chicago Reserve Banks may, as they deem appropriate, impose terms and conditions on their extensions of credit, such as those described in the proposed terms and conditions for the lending facility. It was expected that staff would consult with some market participants in constructing the operational details of the program. The Board also approved the recommendation of the Reserve Banks that credit through the DMLF be extended at the primary credit rate.

(NOTE: After consulting with some market participants about operational details of the program, the Board determined to rescind its approval of the DMLF and consider alternative facilities. The Board rescinded its approval of the DMLF on October 10, 2008, by notation voting.)

**Participating in the discussion and determinations and voting for this action:  
Chairman Bernanke, Vice Chairman Kohn, and  
Governors Warsh, Kroszner, and Duke.**

**Background:** Proposed Direct Money Market Mutual Fund Lending Facility,  
October 3, 2008.

**Implementation:** None.

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**REGULATION D -- Proposed interim final rule with request for public comment to implement payment of interest to depository institutions on reserves held at the Reserve Banks.**

**Discussed.  
Approved.  
October 3, 2008.**

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Today, the Board considered a proposed interim final rule with request for public comment to amend Regulation D (Reserve Requirements of Depository Institutions) to implement the Federal Reserve's authority to pay interest to depository institutions on required and excess reserve balances maintained at the Reserve Banks. The Federal Reserve was initially granted this authority, beginning October 1, 2011, under the Financial Services Regulatory Relief Act of 2006. The Emergency Economic Stabilization Act of 2008 accelerated the effective date of the authority to October 1, 2008.

Board members' discussion of the proposal included consideration of the interest rate to be paid on required reserve balances and excess balances maintained over a

reserve-maintenance period and the treatment of interest paid on balances held by a pass-through correspondent for an eligible institution. Board members supported the proposal and favored requesting public comment on several matters raised in the discussion, such as (1) alternatives to the method of determining the level of respondent excess balances in a correspondent's Reserve Bank account and (2) whether pass-through correspondents should be required to pass interest earned on respondent balances back to the respondents and, if so, how to accomplish this pass-through payment.

Thereupon, the discussion concluded and the Board approved publishing the proposed amendments to Regulation D on interest on reserves as an interim final rule with request for public comment. (NOTE: The Board approved publishing two interim final rules with requests for public comment to alter (1) the formula by which earnings on excess reserves of depository institutions are calculated, by notation voting on October 21, and (2) the formula by which earnings on required reserve balances and excess balances of depository institutions are calculated, by notation voting on November 4, 2008. At its meeting on December 16, 2008, the Board approved an interim final rule to set the interest rates on required reserve balances and excess balances at 1/4 percent and to provide that interest rates paid on those balances may be rates determined by the Board from time to time rather than the rates in the regulation.)

**Participating in this discussion and voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Duke.**

**Background:** Staff proposal to implement interest on reserves, October 3, 2008. (NOTE: Staff circulated a memorandum and draft Federal Register notice on October 5, 2008, for Board members' information.)

**Implementation:** Press release and Federal Register document (Docket No. R-1334), October 6, 2008.

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**FINANCIAL MARKETS -- Proposal to establish the Commercial Paper Funding Facility.**

**Discussed.  
Approved in principle.  
October 5, 2008.**

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The Board had discussed the establishment of a conduit facility for purchasing commercial paper at its meeting on October 3, 2008. Today, staff presented a proposal to establish the Commercial Paper Funding Facility (CPFF) under section 13(3) of the Federal Reserve Act.

The CPFF would be structured as a credit facility to a special-purpose vehicle (SPV) and serve as a funding backstop to facilitate the issuance of term commercial paper. The SPV would purchase eligible commercial paper directly from eligible issuers, and the CPFF would extend credit to the SPV overnight at the target federal funds rate under terms and conditions, such as those described in the CPFF's proposed terms and conditions.

Staff responded to requests from Board members for additional information about the SPV's capital structure, how the financial institutions eligible under the proposal compared with the institutions eligible under the new Troubled Asset Relief Program, the types of assets the SPV would accept, and the approximate size of the commercial paper market to be accommodated by the SPV. At the conclusion of the discussion, the Board approved in principle the establishment of the CPFF, subject to further consultations with the Department of the Treasury. (NOTE: The Board approved the establishment of the CPFF at its meeting on October 7 and agreed to announce additional details regarding the CPFF at its meeting on October 13, 2008.)

**Participating in this discussion and voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Duke.**

**Background:** Proposed CPFF terms and conditions, October 5, 2008.

**Implementation:** None.

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**FINANCIAL MARKETS -- Discussion of (1) developments in the proposals by Citigroup Inc. and Wells Fargo & Company to acquire Wachovia Corporation and (2) market demand for the Term Auction Facility and the Direct Money Market Mutual Fund Lending Facility.**

**Discussed.  
October 5, 2008.**

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Today, the staff reviewed recent events regarding the following matters against the background of the significant level of fragility in financial markets: (1) the competing

proposals by Citigroup Inc. (Citigroup), New York, New York, and Wells Fargo & Company (Wells Fargo), San Francisco, California, to acquire Wachovia Corporation (Wachovia), Charlotte, North Carolina; and (2) market demand for loans from the Term Auction Facility (TAF) and the Direct Money Market Mutual Fund Lending Facility (DMLF).

*Proposals to acquire Wachovia.* The staff reviewed developments in the competing efforts by Citigroup and Wells Fargo to acquire Wachovia, including litigation recently filed by Citigroup to enjoin Wells Fargo's acquisition of Wachovia, and responded to Board members' requests for additional information about the litigation's likely effect on both proposals going forward. The Board members' ensuing discussion included consideration of the effect on Wachovia's financial condition if uncertainty about its acquisition developed, the likelihood that any new offer by Citigroup to acquire Wachovia would continue to require assistance from the Federal Deposit Insurance Corporation, and the near-term prospect of providing liquidity support to Wachovia. At the conclusion of the discussion, it was understood that the federal banking agencies would not express a preference for one acquisition proposal over the other and that staff would keep the Board informed of developments in this matter. (NOTE: The Board approved Wells Fargo's acquisition of Wachovia on October 12 by notation voting and issued a statement regarding its approval on October 21, 2008.)

*TAF and DMLF.* It was noted that the strained credit situation had increased demand for participation in the TAF and that the amount of the 28-day and 84-day auctions would each be doubled to \$150 billion, effective with the 84-day auction on October 6, 2008. Similarly, the amount of the two forward TAF auctions to be conducted in November 2008 to extend credit over year-end would each be increased to \$150 billion. With these increases, the potential amount of TAF credit outstanding over year-end 2008 could total \$900 billion. It was also noted that the DMLF, which the Board had approved at its meeting on October 3, 2008, was not favored by some interested parties. Board members concurred in not implementing the facility at this time. (NOTE: The Board rescinded its approval of the DMLF on October 10, 2008, by notation voting.)

**Participating in this discussion and voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Duke.**

**Background:** None.

**Implementation:** Press release, October 6, 2008.

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**[\*\*\*information deleted\*\*\*] -- Request for an exemption under section 23A of the Federal Reserve Act and the Board's Regulation W.**



**Discussed.  
Approved.  
October 5, 2008.**

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Today, the Board considered a request for an exemption under section 23A of the Federal Reserve Act and the Board's Regulation W (Transactions Between Member Banks and Their Affiliates) to allow [\*\*\*information deleted\*\*\*] to purchase assets from affiliated money market mutual funds (MMMFs). The proposed exemption would allow the affiliated MMMFs to meet redemption requests without having to sell assets in the currently fragile and illiquid money markets.

Board members' discussion of the request included consideration of whether a blanket exemption should be provided to other banking institutions under similar circumstances. Board members approved the bank's request, subject to certain conditions, and agreed to consider future requests for similar exemptions on a case-by-case basis.

**Voting for this action: Chairman Bernanke, Vice Chairman Kohn, and  
Governors Warsh, Kroszner, and Duke.**

**Background:** None.

**Implementation:** Press release and letter from Mr. Frierson to the requester, October 6, 2008.

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**AMERICAN INTERNATIONAL GROUP, INC. -- Proposal to provide a securities  
lending facility.**

**Discussed.  
Approved.  
October 6, 2008.**

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At its meeting on September 16, 2008, the Board had approved an extension of credit by the Federal Reserve Bank of New York to American International Group, Inc. (AIG), New York, New York, in an amount of up to \$85 billion. Today, the Board

reviewed a request by the New York Reserve Bank for authorization to advance funds in an amount of up to \$37.8 billion to AIG through a securities borrowing arrangement in exchange for high-quality collateral.

The evidence available to the Board indicated that AIG had drawn approximately \$62 billion from the original facility as of October 1. In addition, available evidence indicated that drawdowns on the original facility were used, in part, to settle transactions with counterparties returning securities that they had borrowed in connection with the securities lending program operated by certain of AIG's insurance subsidiaries. Available evidence also indicated that AIG was likely to face additional, significant liquidity pressures due to the expected decision by other securities borrowing counterparties to not renew their securities borrowing positions with AIG.

The securities lending facility was proposed to help stabilize AIG's liquidity situation and to help preserve the value of its subsidiaries by providing additional time to arrange for the orderly sale of certain operations.

The Board members' discussion of the proposed securities lending facility included consideration of (1) the current state of the financial markets, (2) continuing systemic risk to financial markets and possible risk of loss to the Federal Reserve from the disorderly failure of AIG, (3) the likelihood that no incremental losses would be assumed by the Federal Reserve due to the high-quality collateral taken under the proposed facility and the additional protections provided by the terms of the proposed facility, and (4) the need to coordinate with the relevant state insurance authorities for AIG's insurance subsidiaries. At the conclusion of their discussion, Board members generally supported the proposed securities lending facility as a temporary measure to address the significant liquidity pressures facing AIG from the securities lending program of its regulated insurance subsidiaries.

Given the unusual and exigent circumstances, the Board authorized the New York Reserve Bank under section 13(3) of the Federal Reserve Act to advance funds to AIG in an amount of up to \$37.8 billion, if the Reserve Bank obtains evidence that the borrower is unable to secure adequate credit accommodations from other banking institutions. The advances should be secured by high-quality investment-grade debt obligations that are owned by the insurance subsidiaries of AIG and, thus, were not available as collateral under the current AIG credit facility; should be secured to the satisfaction of the New York Reserve Bank; and should not exceed the duration of the current AIG credit facility (September 16, 2010), subject to extension by the Reserve Bank after consultation with the Board. The New York Reserve Bank may, as it deems appropriate, impose additional conditions on advancing funds to AIG under the securities lending facility. The Board also approved the recommendation of the New York Reserve Bank that credit under the facility be extended at a rate of 100 basis points above the average overnight repo rate offered by dealers on the relevant collateral type, based on a daily survey of dealers conducted by the Reserve Bank's

market desk. (NOTE: The Board authorized the restructuring, with the Department of the Treasury, of the government's financial support to AIG by notation voting on November 7, 2008. As required by section 129 of the Emergency Economic Stabilization Act of 2008, the Board approved the following reports to the Congress by notation voting: (1) a confidential report of the securities lending facility on October 14, (2) a report of the restructuring on November 17, and (3) a periodic report that updated these reports on December 29, 2008.)

**Participating in the discussion and determinations and voting for this action:**  
**Chairman Bernanke, Vice Chairman Kohn, and**  
**Governors Warsh, Kroszner, and Duke.**

**Background:** Staff memorandum, October 6, 2008.

**Implementation:** Press release, October 8, 2008.

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**MITSUBISHI UFJ FINANCIAL GROUP, INC. -- Proposal to acquire up to 24.9 percent of the voting shares of Morgan Stanley as a noncontrolling equity investment.**

**Discussed.**  
**Approved.**  
**Issuance of order authorized.**  
**October 6, 2008.**

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Today, the Board reviewed a proposal by Mitsubishi UFJ Financial Group, Inc. (Mitsubishi), Tokyo, Japan, to acquire up to 24.9 percent of the voting shares of Morgan Stanley (Morgan), New York, New York, as a noncontrolling equity investment. The proposal presented the following matters for the Board's consideration: (1) whether the proposed business arrangements between Mitsubishi and Morgan would allow Mitsubishi to "control" Morgan for purposes of the Bank Holding Company Act (BHC Act) and (2) whether an emergency existed that required expeditious action on the application.

Staff reviewed with the Board the types of proposed business arrangements between the companies, which included pooling their securities businesses in Japan, entering into exclusive strategies and arrangements under certain conditions, conducting arm's-length transactions, and making certain joint investments in third parties. The Board members' discussion of the application included consideration of (1) the proposed business relationships, (2) the relative size of the two companies involved and Mitsubishi's inability, as a practical matter, to control a company as large

as Morgan, (3) the unlikelihood that the proposal would result in an evasion of the BHC Act's cap on noncontrolling equity investments, and (4) the effect on Morgan if Mitsubishi were unable to make the proposed investment.

At the conclusion of the discussion, the Board determined that Mitsubishi would not acquire control of, or have the ability to exercise a controlling influence over, Morgan or its subsidiary depository institutions under the proposal. The Board also determined that, in light of unusual and exigent circumstances affecting the financial markets and all other facts and circumstances, emergency conditions existed that justified expeditious action on the application. Under these circumstances and in accordance with the BHC Act, the Board shortened to ten days the notice and comment period provided to the primary regulators of the banks and savings associations involved in the proposal. Likewise, the Board waived public notice of the proposal and reduced the act's antitrust waiting period to five days. Thereupon, the Board approved Mitsubishi's proposal to acquire up to 24.9 percent of the voting shares of Morgan as a noncontrolling equity investment.

**Participating in this discussion and voting for this action: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Duke.**

**Background:** None.

**Implementation:** Press release and order, October 6, and press release and statement regarding order, October 7, 2008.

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**FINANCIAL MARKETS -- Proposal to establish the Commercial Paper Funding Facility.**

**Discussed.  
Approved.  
October 7, 2008.**

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The Board had discussed the establishment of a conduit facility that would buy and hold commercial paper until markets returned to normal at its meeting on October 3, and the Board approved in principle the establishment of the Commercial Paper Funding Facility (CPFF), subject to discussions with the Department of the Treasury (Treasury) on its possible participation in the proposal, at its meeting on October 5, 2008. Today, staff presented a proposal to establish the CPFF, after further consultations with Treasury.

The proposed CPFF would be structured as a credit facility to a special-purpose vehicle (SPV) that would serve as a funding backstop to facilitate the issuance of term commercial paper by eligible issuers. The Federal Reserve would lend to the SPV through the CPFF in accordance with the facility's proposed terms and conditions.

Evidence available to the Board indicated that the commercial paper market had been under considerable strain recently as money market mutual funds and other investors, themselves often facing liquidity pressures, had become increasingly reluctant to purchase commercial paper. Available evidence also indicated that the volume of outstanding commercial paper had shrunk, interest rates paid on commercial paper had increased significantly, and an increasingly high percentage of outstanding commercial paper had to be refinanced daily.

Staff responded to requests by Board members for additional information about several proposed terms and conditions for the facility. The ensuing discussion of the Board members included consideration of whether the facility was likely to encourage investors to resume term lending in the commercial paper market by rolling over an eligible issuer's maturing commercial paper, thereby eliminating much of the risk of issuer default. Increased investor demand should, in turn, lower the currently elevated interest rates paid to investors and foster the issuance of longer-term commercial paper. Board members also considered the protections afforded to the Federal Reserve under the facility and the liquidity provided by the CPFF to issuers of new commercial paper as a complement to the liquidity provided to purchasers of outstanding asset-backed commercial paper by an existing facility (the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, or AMLF, approved by the Board at its meeting on September 19, 2008).

Given the unusual and exigent circumstances, the Board authorized the Federal Reserve Bank of New York under section 13(3) of the Federal Reserve Act to extend credit to the SPV for the direct purchase of eligible commercial paper from eligible U.S. issuers if the Reserve Bank obtains evidence that the borrower is unable to secure adequate credit accommodations from other banking institutions. The credit should be on an overnight basis with recourse to the SPV, should be secured by all the assets of the SPV, and should be secured to the satisfaction of the New York Reserve Bank. The New York Reserve Bank may, as it deems appropriate, impose conditions on its extension of credit to the SPV, such as those described in the proposed terms and conditions for the facility. The Board also approved the recommendation of the New York Reserve Bank that credit under the facility be extended at the target federal funds rate. (NOTE: The Board agreed at its meeting on October 13, 2008, to announce additional details about the CPFF's implementation.)

**Participating in these determinations and voting for this action:**  
**Chairman Bernanke, Vice Chairman Kohn, and**  
**Governors Warsh, Kroszner, and Duke.**

**Background:** Proposed CPFF terms and conditions and press release, October 7, 2008.

**Implementation:** Press release with attached CPFF terms and conditions, October 7, 2008.

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**FINANCIAL MARKETS -- Proposal to invoke the systemic-risk exception to provide certain Federal Deposit Insurance Corporation guarantees across the banking system.**

**Discussed.**  
**Approved.**  
**October 13, 2008.**

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Today, staff presented for Board consideration a proposal to broadly invoke the systemic-risk exception to the least-cost-resolution requirements in the Federal Deposit Insurance Act. The exception would allow the Federal Deposit Insurance Corporation (FDIC) to provide certain guarantees across the banking system to assist in restoring stability and confidence in financial markets, which continued to experience a significant level of fragility. Under the act, the FDIC is generally required to resolve troubled insured depository institutions in a manner that is least costly to the deposit insurance fund.

The proposal would apply the systemic-risk exception in order to temporarily provide certain guarantees, without complying with the act's least-cost-resolution requirements, for (1) new senior unsecured debt issued by insured depository institutions and eligible bank and thrift holding companies and (2) non-interest-bearing transaction deposit accounts at insured depository institutions.

Board members' discussion of the proposal included consideration of how the scope of the guarantees differed from recently announced European programs, the benefits of applying the guarantees to eligible banking and thrift institutions that were not currently in financial difficulty, and the proposal's likely effect of restoring confidence in the U.S. banking system. Board members generally agreed that recent events had adversely affected financial stability and investor confidence in the U.S. banking system and in the financial markets more broadly, and they supported the application of the systemic-risk exception to the FDIC's proposed sector-wide guarantees.

In light of all the facts and circumstances, including the condition of the financial markets and the state of the U.S. economy, the Board determined that the FDIC's compliance with the least-cost-resolution requirements of the act in connection with providing assistance to insured depository institutions would have serious adverse effects on economic conditions and financial stability. The Board also determined that the action or assistance to be provided by the FDIC under the proposed guarantee program and permitted under the systemic-risk exception would avoid or mitigate such adverse effects. It was understood that the Secretary of the Treasury would be advised of the Board's determinations, in accordance with the statutory procedures for invoking the systemic-risk exception.

**Participating in these determinations and voting for this action:**  
**Chairman Bernanke, Vice Chairman Kohn, and**  
**Governors Warsh, Kroszner, and Duke.**

**Background:** Staff memorandum, October 13, and legal analysis, October 12, 2008.

**Implementation:** Letter from Chairman Bernanke to Mr. Paulson, Secretary of the Treasury, and joint statement by the Board, Department of the Treasury, and Federal Deposit Insurance Corporation, October 14, 2008.

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**FINANCIAL MARKETS -- Proposal to establish the Money Market Investor Funding Facility.**

**Discussed.**  
**Approved.**  
**October 13, 2008.**

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Today, the Board considered a proposal to help restore liquidity to the money markets by establishing the Money Market Investor Funding Facility (MMIFF) as a new credit facility provided by the Federal Reserve to a series of special-purpose vehicles created by the private sector (PSPVs). Each vehicle would issue asset-backed commercial paper to finance the purchase of eligible money market instruments from eligible investors, with the MMIFF providing backup liquidity support to the PSPVs.

Board members' discussion of the MMIFF included consideration of the advantages of a liquidity initiative in which the private sector assumed the predominant role, the Federal Reserve's well-secured credit position in the facility, and market

conditions that warranted going forward with the proposal, albeit with some open operational issues. In addition, more market participants might take part in an initiative led by the private sector, with backup liquidity support from the Federal Reserve.

Given the unusual and exigent circumstances, the Board authorized the Federal Reserve Bank of New York under section 13(3) of the Federal Reserve Act to extend credit to each PSPV if the New York Reserve Bank obtains evidence that the borrower is unable to secure adequate credit accommodations from other banking institutions. The credit should be on a senior basis with recourse to the PSPV, should be secured by all the assets of the PSPV, and should be secured to the satisfaction of the New York Reserve Bank. The New York Reserve Bank may, as it deems appropriate, impose conditions on its extension of credit to a PSPV, such as those described in the proposed MMIFF terms and conditions. The Board also approved the recommendation of the New York Reserve Bank that credit under the facility be extended at the primary credit rate. (NOTE: The Board approved substantive modifications to the terms and conditions of the MMIFF and reauthorized the facility under section 13(3) of the Federal Reserve Act at its meeting on October 21, 2008.)

**Participating in these determinations and voting for this action:**  
**Chairman Bernanke, Vice Chairman Kohn, and**  
**Governors Warsh, Kroszner, and Duke.**

**Background:** Proposed MMIFF terms and conditions and PSPV overview, October 13, 2008.

**Implementation:** None.

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**FINANCIAL MARKETS -- Proposal to implement the Commercial Paper Funding Facility.**

**Discussed.**  
**October 13, 2008.**

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The Board had approved the establishment of the Commercial Paper Funding Facility (CPFF) at its meeting on October 7, 2008, as a credit facility to a special-purpose vehicle that would serve as a funding backstop to facilitate the issuance of term commercial paper by eligible issuers. Today, the staff reviewed with the Board additional details about the terms and conditions of the CPFF that reflected consultations with commercial paper issuers and dealers. Those details, which were



presented in a new term sheet, included (1) adjustments to the facility's limits on the amount of a single issuer's commercial paper that could be owned by the special-purpose vehicle at any one time and (2) a reservation of the Federal Reserve's right to review and adjust the facility's terms and conditions, including its pricing and eligibility requirements. (NOTE: The Board had discussed a conduit facility for commercial paper at its meeting on October 3 and approved in principle the CPFF at its meeting on October 5, 2008.)

During the ensuing discussion, it was noted that the CPFF could begin funding purchases of commercial paper on October 27, 2008, and that such an announcement was expected to have a positive effect on investors. Thereupon, Board members concurred in announcing the additional details regarding the CPFF and implementing the facility on October 27, 2008. (NOTE: As required by section 129 of the Emergency Economic Stabilization Act of 2008, the Board approved a report of the facility's establishment to the Congress on October 14 and approved a periodic report that updated this report by notation voting on December 29, 2008. The Board approved setting the interest rate on discount window loans to the CPFF's special-purpose vehicle at the maximum rate within the target range for the federal funds rate, if the target federal funds rate is a range of rates rather than a specific rate, by notation voting on December 25, 2008. At its meeting on January 27, 2009, the Board extended its authorization for the CPFF until October 30, 2009.)

**Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Duke.**

**Background:** Proposed CPFF terms and conditions, October 13, 2008.

**Implementation:** Press release with attached terms and conditions and frequently asked questions, October 14, 2008.

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**RISK-BASED CAPITAL GUIDELINES -- Publication of an interim final rule for public comment to facilitate the Department of the Treasury's capital purchase program by permitting stock issued to the program to qualify as tier 1 capital.**

**Discussed.  
Approved.  
October 13, 2008.**

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Today, the Board considered an interim final rule with a request for public comment that would facilitate implementation of the Department of the Treasury's

proposed capital purchase program by allowing bank holding companies to include in their tier 1 capital, without restriction, senior perpetual preferred stock issued to the program. (NOTE: The capital purchase program had been proposed under authority granted by the Emergency Economic Stabilization Act of 2008 and was announced in a joint statement by the Board, Department of the Treasury, and Federal Deposit Insurance Corporation on October 14, 2008.)

Board members' discussion of the interim final rule included consideration of the step-up in the rate of dividends for stock issued to the capital purchase program under certain conditions and the exclusion of instruments with this feature from tier 1 capital under current risk-based capital guidelines. Board members also considered the adverse effect on participating institutions if stock issued to the program did not qualify as tier 1 capital and the preference of the other federal bank supervisors to expressly limit the tier 1 capital treatment for this type of stock to the capital purchase program. Board members agreed that facilitating the timely implementation of the capital purchase program was an important aspect of the efforts to address current conditions in financial markets. It was also understood that staff would consult with the other federal supervisory banking and thrift agencies on publishing a complementary interagency rule for insured depository institution subsidiaries of holding companies.

At the conclusion of the discussion, the Board approved publication of the proposed interim final rule with a request for public comment and delegated to the chairman of the Committee on Supervisory and Regulatory Affairs the authority to approve the final text of the rule and any complementary interagency interim rule that might be proposed.

**Participating in this discussion and voting for these actions:**  
**Chairman Bernanke, Vice Chairman Kohn, and**  
**Governors Warsh, Kroszner, and Duke.**

**Background:** None.

**Implementation:** Press release and Federal Register document (Docket No. R-1336), October 16, 2008.

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**FINANCIAL MARKETS -- Proposal to substantively modify the Money Market Investor Funding Facility.**

**Discussed.**  
**Approved.**  
**October 21, 2008.**

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The Board had approved the establishment of the Money Market Investor Funding Facility (MMIFF) at its meeting on October 13, 2008, to support a private-sector initiative to provide liquidity to eligible money market investors. The MMIFF was structured as a Federal Reserve credit facility to a series of special-purpose vehicles established by the private sector (PSPVs). Today, staff presented a proposal to substantively modify the form of financing provided to the PSPVs through the MMIFF and to make other substantive modifications, in light of further consultations with interested parties.

As originally structured, the PSPVs would issue senior and subordinated asset-backed commercial paper (ABCP), and the MMIFF would provide liquidity support, but not credit support, to the senior ABCP. Under the new proposal, each PSPV would only issue subordinated ABCP, and the MMIFF would replace the funding provided by senior ABCP with direct senior secured loans to the PSPVs. Other substantive modifications included (1) subordinating any interest payments due to the Federal Reserve that are related to an increase in the current primary credit rate (1.75 percent) of more than 50 basis points (or above 2.25 percent) to the principal and interest payments on the ABCP and (2) setting a cap on investor returns on the ABCP that result from any excess spread remaining in a PSPV after completion of the wind-down process.

Evidence available to the Board showed that short-term debt markets continued to be under considerable strain, as money market mutual funds and other investors had become increasingly unable to sell assets to satisfy redemption requests and meet their portfolio-rebalancing needs. By facilitating the sales of money market instruments in the secondary market, the proposed MMIFF was expected to improve the liquidity position of money market investors and thereby increase their ability to meet further redemption requests and their willingness to invest in money market instruments.

Staff responded to requests from Board members for additional information on changing the MMIFF from a backup liquidity facility to a direct lending facility and on other proposed modifications. Board members also considered and discussed the continued availability of the Commercial Paper Funding Facility (approved at the Board's meeting on October 7, 2008) for commercial paper issuers.

Given the unusual and exigent circumstances, the Board authorized the Federal Reserve Bank of New York under section 13(3) of the Federal Reserve Act to extend credit to each PSPV if the New York Reserve Bank obtains evidence that the borrower is unable to secure adequate credit accommodations from other banking institutions. The credit should be extended overnight and on a senior basis with recourse to the PSPV, should be secured by all the assets of the PSPV, and should be secured to the satisfaction of the New York Reserve Bank. The New York Reserve Bank may, as it deems appropriate, impose conditions on its extension of credit to a PSPV, such as

those described in the proposed MMIFF terms and conditions. The Board also approved the recommendation of the New York Reserve Bank that credit under the facility be extended at the primary credit rate. (NOTE: As required by section 129 of the Emergency Economic Stabilization Act of 2008, the Board approved a report of this action to the Congress by notation voting on October 28 and approved a periodic report that updated this report by notation voting on December 29, 2008. The Board expanded the set of eligible investors that may participate in the MMIFF and adjusted several of the economic parameters of the facility by notation voting on December 24, 2008. At its meeting on January 27, 2009, the Board extended its authorization for the MMIFF until October 30, 2009.)

**Participating in these determinations and voting for this action:**

**Chairman Bernanke, Vice Chairman Kohn, and  
Governors Warsh, Kroszner, and Duke.**

**Background:** Proposed MMIFF terms and conditions, October 20, and PSPV overview and press release, October 21, 2008.

**Implementation:** Press release with attached terms and conditions and frequently asked questions, October 21, 2008.

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**FINANCIAL MARKETS -- Proposed agreement by the U.S. government to provide capital, guarantees, and residual financing to Citigroup Inc.**

**Discussed.  
Approved.  
November 23, 2008.**

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Today, the Board considered an agreement by the U.S. government with Citigroup Inc. (Citigroup), New York, New York, one of the largest financial institutions in the United States and a major provider of credit and other services domestically and abroad, against the current background of significant fragility in financial markets. Available evidence suggested that investors were becoming increasingly concerned about the company's prospects, which would threaten Citigroup's ability to continue to obtain funding. The Department of the Treasury (Treasury), Federal Deposit Insurance Corporation (FDIC), and Federal Reserve proposed a package of coordinated actions intended to help restore confidence in Citigroup, help it and the financial system weather the ongoing disruptions in financial markets, and promote financial stability.

The assistance to be provided to Citigroup under the proposed agreement has three major components. Treasury would invest \$20 billion in Citigroup from the Troubled Asset Relief Program in exchange for preferred stock that would pay an 8 percent dividend. Treasury and the FDIC would share with Citigroup losses on a designated pool of Citigroup assets of up to \$306 billion in loans and securities that are backed by residential and commercial real estate and certain other assets. Finally, the Federal Reserve would provide residual financing, if necessary, to Citigroup for the value of assets remaining in the pool after certain loss-sharing arrangements among Citigroup, Treasury, and the FDIC are exhausted.

The proposed FDIC protection would require invoking the systemic-risk exception to the least-cost-resolution requirements in the Federal Deposit Insurance Act, which generally require the FDIC to resolve a troubled insured depository institution in a manner that is least costly to the deposit insurance fund. In light of all the facts and circumstances, including the condition of the financial markets, the state of the U.S. economy, and the size, importance, and interconnectedness of Citigroup, the Board determined that the FDIC's compliance with the least-cost-resolution requirements of the act in connection with providing the proposed assistance to Citibank, N.A. and its insured depository institution affiliates would have serious adverse effects on economic conditions and financial stability. The Board also determined that participation by the FDIC in the proposed program was the type of action and assistance the systemic-risk exception authorized, would assist in stabilizing Citigroup and its insured depository institution subsidiaries, and would avoid or mitigate the potential for serious adverse effects on economic conditions and financial stability. It was understood that the Secretary of the Treasury would be advised of the Board's determination, in accordance with the statutory procedures for invoking the systemic-risk exception. (NOTE: A final memorandum summarizing the considerations for invoking the systemic-risk exception for Citibank, N.A. was distributed to the Board on December 3, 2008.)

The proposed residual Federal Reserve financing would require the Board's authorization under section 13(3) of the Federal Reserve Act. Given the unusual and exigent circumstances, and in accordance with the proposed agreement with Citigroup, the Board authorized the Federal Reserve Bank of New York under section 13(3), if necessary, to provide Citigroup with financing up to the value of the assets remaining in the designated pool after the loss-sharing arrangements with Citigroup, Treasury, and the FDIC are exhausted if the New York Reserve Bank obtains evidence that the borrower is unable to secure adequate credit accommodations from other banking institutions. Credit extensions must be fully secured to the satisfaction of the New York Reserve Bank by the assets in the designated pool on a nonrecourse basis, except with respect to interest payments. The New York Reserve Bank may impose additional conditions on any extension of credit under this authorization as the Reserve Bank deems appropriate. The Board also approved the recommendation of the New York Reserve Bank that credit to Citigroup under the proposed agreement be extended at a floating rate equal to the three-month overnight index swap rate plus 300 basis points.

(NOTE: As required by section 129 of the Emergency Economic Stabilization Act of 2008, the Board approved a report of this action to the Congress by notation voting on December 1 and approved a periodic report that updated this report by notation voting on December 29, 2008.)

**Participating in these determinations and voting for these actions:**  
**Chairman Bernanke, Vice Chairman Kohn, and**  
**Governors Warsh, Kroszner, and Duke.**

**Background:** None.

**Implementation:** Interagency press release with attached term sheet, November 23, and letter from Chairman Bernanke to Mr. Paulson, Secretary of the Treasury, December 2, 2008.

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**FINANCIAL MARKETS -- Proposal to establish the Term Asset-Backed Securities Loan Facility.**

**Discussed.**  
**November 23, 2008.**

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Today, the Board considered the establishment of the Term Asset-Backed Securities Loan Facility (TALF). The facility would help financial markets accommodate the credit needs of consumers and small businesses by facilitating the issuance of asset-backed securities (ABS) and by improving the market conditions for ABS more generally. Historically, the ABS markets had funded a substantial portion of consumer credit loans and small business loans guaranteed by the Small Business Administration, and available evidence indicated a disruption in these markets. The continued disruption of ABS markets could significantly limit the availability of credit to households and small businesses and, when combined with the ongoing stress in other parts of the credit markets, could present significant risks to financial stability and economic conditions in the United States.

The proposed facility would extend up to \$200 billion in loans (each with a one-year term), would be fully secured by the market value of high-quality ABS (subject to a collateral haircut), and would be on a nonrecourse basis to the borrower. The Department of the Treasury (Treasury) would also provide \$20 billion of credit protection to the Federal Reserve in connection with the TALF under the Troubled Asset Relief Program. Board members' discussion of the proposal included consideration of eligible collateral under the facility, the auction process for awarding the loans, and the application of Treasury's executive-compensation limitations to the borrowers.

At the conclusion of the discussion, it was understood that a final proposal would be presented to the Board at a later date for approval under section 13(3) of the Federal Reserve Act. (NOTE: The Board authorized the TALF under section 13(3) of the Federal Reserve Act by notation voting on November 24 and announced the TALF in a press release with attached terms and conditions on November 25, 2008. As required by section 129 of the Emergency Economic Stabilization Act of 2008, the Board approved a report of this action by notation voting on December 2 and approved a periodic report that updated this report by notation voting on December 29, 2008. On December 19, 2008, the Board approved revisions to the terms and conditions for the TALF by notation voting and announced the revisions in a press release. On February 6, 2009, the Board approved further revisions to the TALF by notation voting and announced those revisions in a press release.)

**Participating in this discussion: Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Duke.**

**Background:** Proposal for the Term Asset-Backed Securities Loan Facility and draft press release, November 23, 2008.

**Implementation:** None.

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**NATIONAL CREDIT UNION ADMINISTRATION -- Request for concurrence by the Board in NCUA's determination to lend from its Central Liquidity Facility for purposes other than liquidity needs.**

**Discussed.  
Approved.  
November 23, 2008.**

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Today, the Board considered a request from the National Credit Union Administration (NCUA) to concur in its determination to lend to federally insured, natural-person credit unions for purposes other than liquidity needs. Relevant documentation showed that extensions of credit from the NCUA's Central Liquidity Facility (CLF) were normally limited to meeting a member's liquidity needs, unless the NCUA determined, with the concurrence of the Board and Department of the Treasury, that CLF lending for purposes other than liquidity needs was in the national economic interest.

During the ensuing discussion, staff noted that the proposal would permit certain credits extended by corporate credit unions to natural-person credit unions to be

transferred to the CLF, which would likely ease the increasing liquidity pressures on corporate credit unions. In light of the current strains in financial markets, it was generally agreed that the failure of a large corporate credit union caused by a shortfall in liquidity could have serious adverse implications for the U.S. financial system and the economy.

Thereupon, Board members concurred in NCUA's determination that extensions of credit to members of the CLF for purposes other than liquidity needs would be in the national economic interest.

**Participating in this determination and voting for this action:**  
**Chairman Bernanke, Vice Chairman Kohn, and**  
**Governors Warsh, Kroszner, and Duke.**

**Background:** Staff memorandum with attached request and proposed response, November 23, 2008.

**Implementation:** Letter from Chairman Bernanke to Mr. Fryzel, chairman of the National Credit Union Administration, November 24, 2008.

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**CITIGROUP INC. -- Proposed authorization to provide liquidity support to Citigroup's London-based broker-dealer subsidiary.**

**Discussed.**  
**Approved.**  
**November 23, 2008.**

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At its meeting on September 21, 2008, the Board had authorized the Federal Reserve Bank of New York under section 13(3) of the Federal Reserve Act to extend credit to the U.K. broker-dealer subsidiaries of Goldman Sachs, Morgan Stanley, and Merrill Lynch, all in New York, New York, against collateral acceptable at the Primary Dealer Credit Facility (PDCF). Today, the Board decided to authorize the New York Reserve Bank to extend credit to the London-based broker-dealer subsidiary of Citigroup Inc. (Citigroup), also in New York, under the same terms and conditions applicable to those organizations.

Given the unusual and exigent circumstances, the Board authorized the New York Reserve Bank under section 13(3) of the Federal Reserve Act to extend credit to Citigroup's London-based broker-dealer subsidiary if the New York Reserve Bank obtains evidence that the borrower is unable to secure adequate credit



accommodations from other banking institutions. Credit extensions under the facility must be fully secured to the satisfaction of the New York Reserve Bank and must be secured by the types of collateral accepted at the PDCF by the Reserve Bank. The New York Reserve Bank may impose such additional conditions on any extension of credit under the facility as the Reserve Bank deems appropriate. The Board also approved the recommendation of the New York Reserve Bank that credit to Citigroup under the facility be extended at the primary credit rate. (NOTE: As required by section 129 of the Emergency Economic Stabilization Act of 2008, the Board approved a periodic report that included this action to the Congress by notation voting on December 29, 2008.)

**Participating in this determination and voting for this action:**  
**Chairman Bernanke, Vice Chairman Kohn, and**  
**Governors Warsh, Kroszner, and Duke.**

**Background:** None.

**Implementation:** None.

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**REGULATION D -- Interest rates on required reserve balances and excess balances.**

**Approved.**  
**December 16, 2008.**

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At its meeting on October 3, 2008, the Board had approved paying interest on required reserve balances and excess balances held at Federal Reserve Banks. On two occasions, the Board had modified the formulas used to calculate the interest rates paid. All the formulas were based on the target federal funds rate. Earlier today, the Federal Open Market Committee (FOMC) elected not to set a target federal funds rate but rather to set a target range of 0 to 1/4 percent.

The Board approved an interim final rule today that amended Regulation D (Reserve Requirements of Depository Institutions) by establishing a new interest rate of 1/4 percent on required reserve balances and excess balances. In light of current economic conditions, any delay in implementing the rule would be contrary to the public interest, and the new rate is effective for the reserve maintenance periods beginning December 18, 2008. The Board also amended Regulation D to provide that the interest rates to be paid on required reserve balances and excess balances may be rates determined by the Board from time to time rather than the rates in the regulation.

**Participating in these determinations and voting for this action:  
Chairman Bernanke, Vice Chairman Kohn, and  
Governors Warsh, Kroszner, and Duke.**

**Background:** Proposed resolution, December 16, 2008.

**Implementation:** Press release, December 16, and Federal Register document (Docket No. R-1334), December 18, 2008.