

From: Fondacaro, Jack [jfondaca@lehman.com]
Sent: Monday, September 15, 2008 2:13 AM (GMT)
To: Feraca, John [joferaca@lehman.com]; Hraska, James W [JHraska@lehman.com]; Fleming, Dan (TSY) [dfleming@lehman.com]; Jones, Craig L [cljones@lehman.com]; Palchynsky, John N [jpalchyn@lehman.com]; Policke, Ricky [rpolicke@lehman.com]; Ullman, Neal (NY) [Neal.Ullman@lehman.com]
Subject: Fw: Fed Announcement Regarding Liquidity Facilities

Fyi from SIFMA- if you haven't already heard.

Jack

----- Original Message -----

From: Christopher Killian <ckillian@sifma.org>
To: Fondacaro, Jack
Sent: Sun Sep 14 21:56:47 2008
Subject: Fed Announcement Regarding Liquidity Facilities

To: MBS and Securitized Products Division Committees

Re: Fed Announcement Regarding Liquidity Facilities

Tonight the Fed announced the following steps in light of this weekend's activities. See below for the statement from the Fed.

1. PDCF-eligible collateral to 'closely' match collateral accepted in BONY/Chase tri-party repo systems (no expiry noted)
2. TSLF schedule 2 auctions to allow all IG debt (no expiry noted)
3. TSLF schedule 2 auctions to be held every week, upsized (no expiry noted)
4. Temporary exception to the limitations in section 23A of the Federal Reserve Act to allow all insured depository institutions to provide liquidity to their affiliates for assets typically funded in the tri-party repo market. This exception expires on January 30, 2009

<http://www.federalreserve.gov/newsevents/press/monetary/20080914a.htm>
<<http://www.federalreserve.gov/newsevents/press/monetary/20080914a.htm>>

Press Release

Release Date: September 14, 2008

For immediate release

The Federal Reserve Board on Sunday announced several initiatives to provide additional support to financial markets, including enhancements to its existing liquidity facilities.

"In close collaboration with the Treasury and the Securities and Exchange Commission, we have been in ongoing discussions with market participants, including through the weekend, to identify potential market vulnerabilities in the wake of an unwinding of a major financial institution and to consider appropriate official sector and private sector responses," said Federal Reserve Board Chairman Ben S. Bernanke. "The steps we are announcing today, along with significant commitments from the private sector, are intended to mitigate the potential risks and disruptions to markets."

"We have been and remain in close contact with other U.S. and international regulators, supervisory authorities, and central banks to monitor and share information on conditions in financial markets and firms around the world," Chairman Bernanke said.

The collateral eligible to be pledged at the Primary Dealer Credit Facility (PDCF) has been broadened to closely match the types of collateral that can be pledged in the tri-party repo systems of the two major clearing banks. Previously, PDCF collateral had been limited to investment-grade debt securities.

The collateral for the Term Securities Lending Facility (TSLF) also has been expanded; eligible collateral for Schedule 2 auctions will now include all investment-grade debt securities. Previously, only Treasury securities, agency securities, and AAA-rated mortgage-backed and asset-backed securities could be pledged.

These changes represent a significant broadening in the collateral accepted under both programs and should enhance the effectiveness of these facilities in supporting the liquidity of primary dealers and financial markets more generally.

Also, Schedule 2 TSLF auctions will be conducted each week; previously, Schedule 2 auctions had been conducted every two weeks. In addition, the amounts offered under Schedule 2 auctions will be increased

to a total of \$150 billion, from a total of \$125 billion. Amounts offered in Schedule 1 auctions will remain at a total of \$50 billion. Thus, the total amount offered in the TSLF program will rise to \$200 billion from \$175 billion.

The Board also adopted an interim final rule that provides a temporary exception to the limitations in section 23A of the Federal Reserve Act. It allows all insured depository institutions to provide liquidity to their affiliates for assets typically funded in the tri-party repo market. This exception expires on January 30, 2009, unless extended by the Board, and is subject to various conditions to promote safety and soundness.