

News Bulletin

October 21, 2008



Federal Reserve Announces Creation of Money Market Investor Funding Facility

The Federal Reserve Board (the “Board”) announced today, October 21, 2008, the creation of the Money Market Investor Funding Facility (“MMIFF”), which is intended to support a private-sector initiative designed to provide liquidity to U.S. money market investors.¹

Under the MMIFF, the Federal Reserve Bank of New York (“FRBNY”) will provide senior secured funding to a series of private special purpose vehicles (“PSPVs”) to facilitate an industry-supported private-sector initiative to finance the purchase of eligible assets from eligible investors. Eligible assets will include U.S. dollar-denominated certificates of deposit and commercial paper issued by highly rated financial institutions and having remaining maturities of 90 days or less. Eligible investors will include U.S. money market mutual funds and over time may include other U.S. money market investors. It has been reported that the FRBNY is prepared to lend up to \$540 billion through the MMIFF and that there will be five PSPVs run by JPMorgan Chase.

In announcing the creation of the MMIFF, the Board noted that the short-term debt markets have been under considerable strain in recent weeks as money market mutual funds and other investors have had difficulty selling assets to satisfy redemption requests and meet portfolio rebalancing needs. The Board stated that by facilitating the sales of money market instruments in the secondary market, the MMIFF should improve the liquidity position of money market investors, thus increasing their ability to meet any further redemption requests and their willingness to invest in money market instruments. In addition, the Board stated its belief that improved money market conditions will also enhance the ability of banks and other financial intermediaries to accommodate the credit needs of businesses and households.

The MMIFF complements the previously announced Commercial Paper Funding Facility (“CPFF”),² which, on October 27, 2008, will begin funding purchases of highly rated, U.S. dollar-denominated, three-month, unsecured and asset-backed commercial paper issued by U.S. issuers, as well as the Asset Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (“AMLF”),³ announced on September 19, 2008, which extends loans to banking organizations to purchase asset-backed commercial paper from money market mutual funds. The AMLF, CPFF, and MMIFF are all intended to improve liquidity in short-term debt markets and thereby increase the availability of credit.

¹ The Board’s press release announcing the MMIFF can be found at <http://www.federalreserve.gov/newsevents/press/monetary/20081021a.htm>.

² See our Client Alert, “First Look at Treasury Plan; Money Market Fund Bailout,” dated September 21, 2008. <http://www.mofo.com/news/updates/files/080921FirstLook.pdf>.

³ See our Client Alert, “Money Market Fund Bailout Update; First Look: New Asset-Backed Commercial Paper Liquidity Facility,” dated September 24, 2008. <http://www.mofo.com/news/updates/files/080924MoneyMarket.pdf>.

Under the MMIFF, each PSPV is subject to the following terms:

- *Funding Sources:*
 - Financing from the MMIFF and
 - Issuance of asset-backed commercial paper (“ABCP”)
- *Concentration of Credit Risk:* At the time of a PSPV’s purchase of a debt instrument issued by a financial institution, the debt instruments of that financial institution may not constitute more than 15 percent of the assets of the PSPV.
- *Terms of Eligible Assets:*
 - Eligible U.S. dollar-denominated certificates of deposit, bank notes, and commercial paper with a remaining maturity of 90 days or less will be purchased by the PSPV at amortized cost.
 - Each PSPV will only purchase debt instruments issued by ten financial institutions designated in its operational documents. Each of these financial institutions will have a short-term debt rating of at least A-1/P-1/F1 from two or more major nationally recognized statistical rating organizations (“NRSROs”).
- *Purchase Price of Eligible Assets:* The PSPV will issue to the seller of the eligible asset ABCP equal to 10 percent of the asset’s purchase price. The ABCP will have a maturity equal to the maturity of the asset and will be rated at least A-1/P-1/F1 by two or more major NRSROs. The balance of the purchase price will come from the FRBNY.
- *Terms of FRBNY Loans:* 90 percent of the purchase price of each eligible asset until the maturity of the asset, on an overnight basis and at the primary credit rate. FRBNY loans will be senior to the ABCP, with recourse to the PSPV, and secured by all the assets of the PSPV.
- *Downgrade or Default in Eligible Assets:*
 - If the debt instruments of a financial institution held by a PSPV are no longer eligible assets due to a short-term debt rating downgrade, the PSPV must cease all asset purchases until all of the PSPV’s assets issued by that financial institution have matured.
 - Upon a default of any asset held by a PSPV, the PSPV must cease all asset purchases and repayments on outstanding ABCP. Proceeds from maturation of the PSPV’s assets will be used to repay the FRBNY and, upon maturation of all assets in the PSPV, any remaining available cash will then be used to repay principal and interest on the ABCP.
- *Termination of the PSPV and Winding-Down:*
 - A PSPV will cease purchasing assets and will enter the wind-down process described below on April 30, 2009, unless the Board extends the MMIFF.
 - During the wind-down process, proceeds from the maturation of the assets of a PSPV on a given day will be used first to repay principal and interest on the FRBNY loans and then to repay principal and interest on the ABCP that matures on that day.
 - A small fixed amount of any excess spread (which has not yet been determined) remaining in the PSPV after completion of the wind-down process will be allocated proportionally among investors in its ABCP; the FRBNY will receive any remaining excess spread.

We will provide updates regarding the MMIFF, as well as the AMLF and CPFF, as additional information becomes available.

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