

# FEDERAL RESERVE BANK *of* NEW YORK *Serving the Second District and the Nation*



## Maiden Lane Transactions

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### MILESTONES

**September 18, 2018:** Maiden Lane LLC sold all remaining securities. Net proceeds from sales of the assets, as well as cash flow generated by ML LLC, provided a net gain of approximately \$2.5 billion for the benefit of the U.S. public.

**November 12, 2014:** The legal existence of Maiden Lane II LLC and Maiden Lane III LLC was formally terminated. The small amount of cash held in reserve by each LLC was paid to the New York Fed and AIG, after payment of final trailing expenses, in accordance with their respective interests on November 20, 2014.

**September 15, 2014:** Remaining proceeds in Maiden Lane II LLC and Maiden Lane III LLC (apart from a small amount of cash held in reserve for trailing expenses) were paid to the New York Fed and AIG in accordance with their respective interest in each vehicle.

**November 15, 2012:** Net proceeds from additional sales of securities in Maiden Lane LLC enabled the full repayment of the subordinate loan made by JPMorgan Chase & Co. plus accrued interest. The New York Fed will receive 100 percent of future cash flows generated from the remaining ML LLC assets, in accordance with the ML LLC waterfall.

**August 23, 2012:** Maiden Lane III LLC sold all remaining securities. Subsequent to the repayment of ML III LLC's liabilities to the New York Fed and AIG, net proceeds from sales of the securities, as well as cash flow the securities generated while held by ML III LLC, provided a net gain of approximately \$6.6 billion for the benefit of the U.S. public.

**July 16, 2012:** Net proceeds from additional sales of securities in Maiden Lane III LLC enabled the full repayment of AIG's equity contribution plus accrued interest and provided residual profits to the New York Fed. The New York Fed will continue to receive 67 percent of residual profits generated by future sales of ML III LLC assets.

**June 14, 2012:** Maiden Lane LLC and Maiden Lane III LLC repaid the loans made by the New York Fed, with interest. The successful repayment of the loans marks the retirement of the last remaining debts owed to the New York Fed from the crisis-era interventions with Bear Stearns and AIG.

**February 28, 2012:** Maiden Lane II LLC sold all remaining securities\*. Net proceeds from sales of all the securities, as well as cash flow the securities generated while held by ML II LLC, enabled the full repayment of ML II LLC's liabilities to the New York Fed and AIG while also providing a net gain of approximately \$2.8 billion for the benefit of the U.S. public.

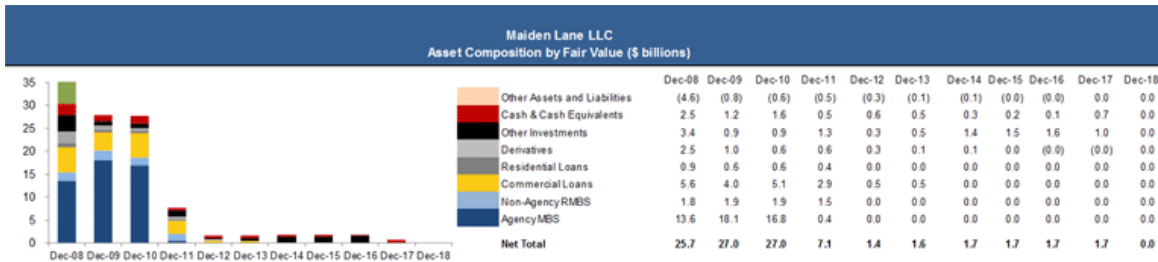
### HISTORICAL SUPPLEMENTAL SURVEY REPORTS

<a href="#">Overview</a>	<a href="#">Maiden Lane</a>	<a href="#">Maiden Lane II</a>	<a href="#">Maiden Lane III</a>	<a href="#">News</a>
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1. [Transaction Overview](#)
2. [Significant Transaction Terms](#)
3. [Management of Portfolio Assets](#)
4. [Vendors](#)
5. [Periodic Releases](#)
6. [Asset Sales](#)

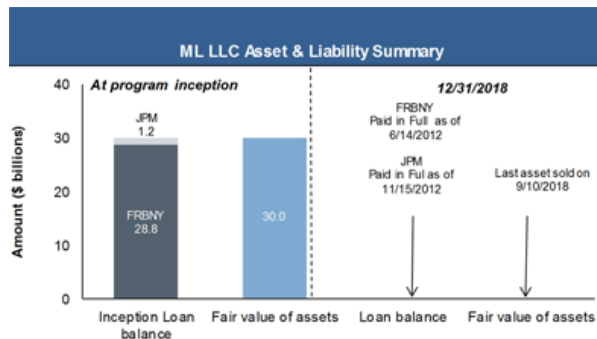
### CHARTS





Source: FRBNY-Summary of Assets

Notes: Other Investments primarily comprised short-term investments consisting of U.S. Treasury securities. Other Assets and Liabilities includes interest and principal receivable, amounts receivable for securities sold, amounts payable for securities purchased, collateral posted to the LLC by swap counterparties and other liabilities/accrued expenses. Change in fair value from the prior year reflects a combination of asset repayment of principal, change in the price, realized gains and losses as a result of sales and the disbursement of cash in accordance with the Maiden Lane LLC waterfall.



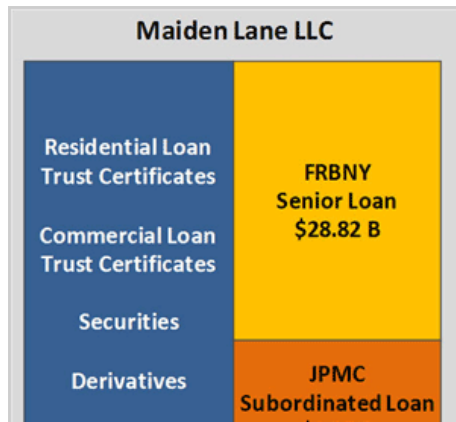
Source: FRBNY - Summary of Assets and Outstanding Loan Balance

## TRANSACTION OVERVIEW

### OVERVIEW

In March 2008, Maiden Lane LLC (ML LLC) was formed to facilitate JPMorgan Chase & Co.'s (JPMC) merger with Bear Stearns Companies Inc. (Bear Stearns) and prevent the contagion affects of Bear Stearns's disorderly collapse to the broader U.S. economy. ML LLC borrowed \$28.82 billion from the Federal Reserve Bank of New York (New York Fed) in the form of a senior loan, which, together with funding from JPMC of approximately \$1.15 billion in the form of a subordinate loan, was used to purchase a portfolio of mortgage-related securities, residential and commercial mortgage whole loans and associated hedges (derivatives) from Bear Stearns.

- **Testimony: Chairman Bernanke** [OFFSITE](#)  
April 3, 2008
- **Testimony: New York Fed President Geithner** »  
April 3, 2008



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*Note: Derivatives includes swap contracts, futures, and options on futures*

The ML LLC transaction closed on June 26, 2008 based on Bear Stearns's fair value of its assets as of March 14, 2008<sup>1</sup>. The portfolio of assets and hedges had a fair value on March 14, 2008 of approximately \$30 billion.

The JPMorgan Chase subordinated loan will be the first to absorb losses, if any, on the liquidation of the portfolio assets.

- [Maiden Lane LLC Terms and Conditions Press Release »](#)
- [Maiden Lane LLC Term Sheet—Annex III »](#)

[↑Back to Top](#)

## SELECTION CRITERIA FOR PORTFOLIO ASSETS

All the assets purchased originated from the Mortgage Desk of Bear Stearns. Under the terms of the agreement with the New York Fed, the assets purchased by ML LLC from Bear Stearns had to meet certain eligibility requirements. The due diligence review of the assets for adherence to the eligibility criteria was conducted by the New York Fed's advisors, which included its investment manager, BlackRock Financial Management Inc. and Ernst & Young. Regardless of the final closing date of the asset purchase, in order to be eligible for purchase by ML LLC, the Bear Stearns assets needed to meet the following eligibility criteria as of March 14, 2008.

### CASH ASSETS (SECURITIES AND MORTGAGE LOANS)

**Securities Criteria:** The securities purchased by ML LLC had to be U.S. domiciled and issued and U.S. dollar-denominated. The securities had to be rated investment grade, which was defined as rated BBB- or higher.

**Mortgage Whole Loan Criteria:** All commercial and residential mortgage whole loans (i.e. non-securitized) had to be performing, which was defined as current or delinquent by no more than 30 days.

### HEDGES (DERIVATIVES)

ML LLC purchased a pro-rata share of the macro, non-credit and credit hedges associated with the Mortgage Desk of Bear Stearns. Macro and non-credit hedges were largely in the form of interest rate swaps, futures, options on futures, U.S. Treasuries and agency mortgage TBAs. Credit hedges associated with the Bear Stearns Mortgage Desk's outstanding positions on March 14, 2008, in the form of single-name credit default swaps (CDS) and to a lesser extent CMBX positions, were also purchased on a pro-rata basis. The CDS contracts purchased by ML LLC referenced investment grade and non-investment grade underlying securities. On an aggregate net basis, the single-name CDS positions purchased by ML LLC resulted in ML LLC being the protection buyer on the CDS contracts (i.e. holding a net short credit position).

[↑Back to Top](#)

## COMPOSITION OF ASSETS AT INCEPTION (MARCH 14, 2008)

Asset	Fair Value* (\$ billion)
Agency MBS	\$10.1
Commercial real estate whole loans	\$8.2
Non-agency RMBS	\$5.1
Derivatives	\$3.7
Residential whole loans	\$1.6
CMBS, non-residential ABS, CDOs, corporates and municipals	\$1.3
<b>Total</b>	<b>\$30.0</b>

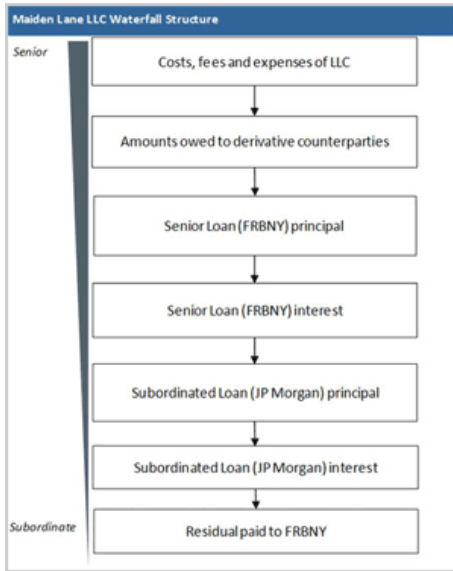
\*Bear Stearns fair value marks as of 3/14/08.

[↑Back to Top](#)

## SIGNIFICANT TRANSACTION TERMS

- The New York Fed loan to ML LLC is senior to the JPMC loan. Both loans are secured by ML LLC's portfolio of assets and issued with a stated term of 10 years. The term of both loans may be extended at the New York Fed's discretion; however, if the New York Fed extends the JPMC loan, it must also extend the FRBNY loan for the same amount of time.
- The interest on the New York Fed senior loan accrues at the **primary credit rate**.
- The interest on the JPMC subordinated loan accrues at the **primary credit rate** plus 450 basis points.
- The distribution of proceeds realized on the ML LLC portfolio (including interest proceeds and proceeds from the maturity or liquidation of the asset portfolio) occurs on a monthly basis, unless otherwise directed by the New York Fed, and is made in the following order (each category must be fully paid before proceeding to the next lower category):





- Exception: There was a 2-year accumulation period from June 26, 2008 (closing date) until June 26, 2010, during which any proceeds realized in the ML LLC portfolio, after the payment of certain fees and expenses and any payments made pursuant to the derivative contracts, was deposited into a reserve account and reinvested into eligible investments<sup>2</sup>. At the sole discretion of the New York Fed, repayment of the senior loan could have commenced during the 2-year accumulation period, but only if the ML LLC first paid in full the outstanding principal amount of the subordinate loan plus any accrued and unpaid interest.
- Since the end of the accumulation period on June 26, 2010, distribution of the proceeds realized on the portfolio occurs on a monthly basis, unless otherwise directed by the Federal Reserve.

[↑Back to Top](#)

## MANAGEMENT OF PORTFOLIO ASSETS

The New York Fed retained BlackRock Financial Management Inc. (investment manager) to perform the day-to-day management of the assets held in the ML LLC portfolio.

The investment manager's objective for ML LLC's portfolio is to repay the New York Fed's senior loan (including principal and interest), while refraining from investment actions that would disturb general financial market conditions. The sale of assets from ML LLC through 2012 enabled the full repayment of its liabilities to the New York Fed and JPMorgan Chase & Co. The New York Fed is entitled to receive all residual profits earned by ML LLC.

### KEY INVESTMENT GUIDELINES

1. The investment manager must manage portfolio proceeds in accordance with the objective described above, subject to the maintenance of sufficient liquidity to meet expected payments and obligations. Following the 2-year accumulation period, funds invested in short-term investments are limited to: Treasury securities and agency debt obligations with remaining maturity of a year or less; U.S. 2a-7 Treasury/Agency money market funds; and reverse repurchase agreements collateralized by U.S. Treasury and agency securities.
2. For purposes of managing interest rate risk the investment manager may enter into or purchase:
  - Interest rate swaps
  - Interest rate caps and floors
  - Swaptions
  - Treasuries
  - Agency TBAs
  - Eurodollar, Federal Funds and Treasury futures
  - Options on Treasury futures or Eurodollar futures
3. Transactions that create new exposures to credit derivatives, equities, commodities, foreign currency-denominated assets or sub-investment grade assets are expressly prohibited. For the avoidance of doubt, the termination of a credit derivative that results in a net non-zero exposure to a reference obligation is not considered a transaction that creates a new exposure.
4. For purposes of meeting the investment objective discussed above or to meet contractual obligations to derivative counterparties, the investment manager may take the following actions<sup>3</sup>:
  - Purchase any underlying assets sold in a collateralized debt obligation (CDO) liquidation where the CDO in the ML LLC portfolio has experienced an event of default
  - Purchase or accept delivery of any reference obligation underlying a credit default swap (CDS) in the ML LLC portfolio where the CDS has experienced a credit event.
5. The New York Fed, at its sole discretion, may add permissible categories for investment.

## VENDORS

- [BlackRock PDF](#)
- [State Street PDF](#)

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## PERIODIC RELEASES

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- [Weekly H.4.1 Federal Reserve Statistical Release](#) [OFFSITE](#)

ML LLC's assets and liabilities are consolidated on the books of the New York Fed. As a result, the weekly H.4.1 statistical release of the Federal Reserve's balance sheet includes ML LLC's quarterly fair value (plus normal accounting entries largely related to interest accruals, senior loan repayments and expenses) and outstanding loan balance.

- [Report on Credit and Liquidity Programs](#) [OFFSITE](#)

The Federal Reserve prepares this report as part of its efforts to enhance transparency about the range of programs and tools that were implemented in response to the financial crisis.

- [Summary of Assets](#)<sup>5</sup> [PDF](#)

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- [Holdings Report](#)<sup>5</sup> [PDF](#) [EXCEL](#)

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- [Year-end Financials](#)<sup>6</sup> [PDF](#)

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## ASSET SALES

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As a normal course of business, ML LLC sells assets from its portfolio in order to meet its mandated investment objective. Asset sales have been conducted since the LLC's inception and in a manner which refrains from disrupting general financial market conditions. The asset sales information provided below is intended to enhance the transparency around ML LLC portfolio asset sales. The New York Fed is providing the following information on the progress of the sales on a regular basis, taking care to preserve the effectiveness of the asset sales process:

- [Asset Sales Review](#)<sup>5</sup> [EXCEL](#)

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- [Proceeds by Counterparty Review](#)<sup>5,7</sup> [EXCEL](#)

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- [Transaction Data](#) [EXCEL](#)

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Asset level detail of transactions completed in Maiden Lane.

The New York Fed welcomes and encourages small, veteran-, minority- and women- owned businesses to bid either individually or through meaningful partnership with others, on assets in the ML LLC portfolio. As the New York Fed is interested in better understanding and monitoring the diversity of those entities purchasing its assets, prospective and/or successful bidders, either bidding alone or in partnership with another bidder, may be asked to disclose information about their small, veteran-, minority- and women- owned business status as well as that of their business partners. Please note, however, that the fact that a bidder is a small, veteran-, minority- and women- owned business does not in any way impact the selection of a winning bidder. Inquiries related to ML LLC asset sales can be made at [MLinquiries@ny.frb.org](mailto:MLinquiries@ny.frb.org).

### Glossary »

1  
Therefore, the New York Fed incurred the risk of the ML LLC asset portfolio from Bear Stearns as of March 14, 2008.

2  
Eligible investments included Treasury securities, Agency securities (mortgage-backed securities and debentures).

3  
These actions may require the purchase of reference bonds that are rated below investment grade (i.e. BBB- or below)

4  
The parties to these contracts are KPMG or Deloitte and Touche and the Board of Governors of the Federal Reserve System. Inquiries regarding these contracts should be directed to the Board of Governors of the Federal Reserve System.

5  
Change in fair value from the prior year reflects a combination of asset repayment of principal, change in the price, realized gains and losses as a result of sales and the disbursement of cash in accordance with the Maiden Lane LLC waterfall.

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*Sales related to commercial whole loans and real estate owned are excluded from this report due to confidentiality provisions that govern these sales transactions.*

*\* As part of the close-out procedures for Maiden Lane II LLC, on August 22, 2012, the New York Fed sold eight residual securities that had been factored to zero and consequently dropped from the portfolio holdings report published by the New York Fed. There was no active notional balance associated with these positions as the securities were fully written down prior to the last ML II sale on February 28, 2012; thus, the subsequent sale of these zero-factor securities had no material impact on the net gain reported for the ML II portfolio.*

[↕Back to Top](#)

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