

MARKETS

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Term Securities Lending Facility: Frequently Asked Questions

The following is intended to address operational questions about the System Open Market Account ("SOMA") Term Securities Lending Facility ("TSLF"). Its purpose is to supplement the announcement of the program on March 11, 2008 and program terms and conditions.

March 11, 2008

GENERAL

What is the TSLF?

The TSLF is a 28-day facility that will offer Treasury general collateral ("GC") to the Federal Reserve Bank of New York's ("FRBNY") primary dealers in exchange for other program-eligible collateral. It is intended to promote liquidity in the financing markets for Treasury and other collateral and thus to foster the functioning of financial markets more generally.

What are the differences between the SOMA Securities Lending program and the TSLF?

The SOMA Securities Lending program offers specific Treasury securities held by SOMA for loan against Treasury GC on an overnight basis. Dealers bid competitively in a multiple-price auction held every day at noon. The TSLF will offer Treasury GC held by SOMA for a 28-day term. Dealers will bid competitively in a single-price auction held once per week and borrowers will pledge program-eligible collateral.

What are the differences between the TSLF and other Federal Reserve operations, like the TAF and term repo operations?

The Term Auction Facility ("TAF") offers term funding to depository institutions via a bi-weekly competitive auction. In contrast, the TSLF will offer Treasury GC to the FRBNY's primary dealers in exchange for other program-eligible collateral. The FRBNY term repo operations are designed to temporarily add reserves to the banking system via term repos with the primary dealers. These agreements are cash-for-bond agreements, unlike the bond-for-bond lending of the TSLF, which will have no impact on the aggregate level of balances available in the banking system.

Do these operations have a reserve impact?

No, the securities loans will not affect overnight bank reserves since the loans are collateralized with other securities.

What collateral is eligible for pledging?

Eligible collateral will be determined by the Federal Reserve and includes all collateral eligible for tri-party repurchase agreements arranged by the Open Market Trading Desk ("Schedule 1") and AAA/Aaa-rated private-label residential MBS that are not on review for downgrade ("Schedule 2"). Schedule 2 also includes everything in Schedule 1.

How often will the FRBNY lend securities for term?

The FRBNY will auction a set amount of Treasury GC on Thursdays at approximately 2:00 pm Eastern Time beginning on March 27. The two collateral schedules eligible for pledging will alternate from week-to-week.

What are the terms of the loan?

Loans will settle the business day after the operation and will mature 28 days later unless otherwise stated in the announcement. For example, the term of the loan may be adjusted to reflect holidays.

Can a dealer terminate a loan early?

No.

How are loans allocated among dealers?

Loans are awarded based on a competitive bidding process in a single-price auction format. Primary dealers that have elected to participate in the program may submit up to two bids via FedTrade or if necessary, over the phone after the auction has been announced at approximately 2:00 pm Eastern Time.

How much can dealers borrow at each auction?

Dealers can borrow no more than 20 percent of the par value offered of Treasury GC. In addition, the FRBNY reserves the right to reject bids at its discretion.

When will the FRBNY announce auction offering amounts?

The FRBNY will announce the par value of offering amounts the day prior to the auction. Announcements will be posted to the FRBNY website.

Which general collateral Treasury securities will SOMA lend?

The FRBNY will detail the basket of Treasury GC that will be lent in the operation in each auction announcement, though the FRBNY reserves the right to alter the basket at any time. In addition, the FRBNY may substitute particular securities in the general collateral basket during the life of the securities loan.

Are the auction results released to the public?

The total amount of propositions and awards, as well as the stop-out award rate, will be released in a timely manner after the auction is complete via FedTrade or by phone. In addition, summary information will be posted on the FRBNY website following the auction.

Are primary dealers required to bid? Can other market participants bid in the operation?

Only primary dealers are eligible counterparties for the TSLF. Dealer participation is entirely voluntary. The FRBNY does not evaluate dealer performance based on participation in the TSLF. No other market participants are eligible.

Can the FRBNY modify program terms?

Similar to the existing SOMA securities loan program for specific Treasury collateral, the FRBNY can modify program terms at any time.

BIDDING**How do firms bid?**

Dealers that have elected to participate in the program may submit bids via FedTrade or over the phone. The bid rate represents the lending fee rate that a participant is willing to pay in order to borrow a basket of Treasury GC. It is not a repo rate. Because the program operates on a borrow-versus-pledge basis, the bid rate may be considered equivalent to the spread between the GC rate for the pledged collateral and the Treasury GC financing rate.

In what sequence are bids considered?

Bids will be tiered from highest fee rate to lowest. The highest bid rate will be awarded prior to the bid with the next highest rate until the announced auction size is filled. If a dealer's aggregate bid amount exceeds 20 percent of the offering amount, the higher accepted bid rate will be awarded first and the lower accepted bid would be curtailed to the maximum loan amount.

How many bids can a dealer submit?

Dealers can submit up to two propositions per auction.

What is the minimum and maximum amount for which a firm can bid?

The minimum bid for both collateral type auctions is \$10 million. Each dealer bid can be for no more than 20 percent of the offering amount and each dealer will be awarded no more than 20 percent of the offering amount.

What dollar increments should be used when bidding?

Bids must be submitted in increments of \$10 million. Bids submitted in less than \$10 million increments will not be accepted. However, partial awards can be rounded to the nearest million.

How many decimal places should be used when bidding?

TSLF bids can be submitted in percent form out to four decimal places.

How are dealers notified of awards?

Dealers are notified of awards via FedTrade or by phone in a timely

manner after the auction is complete.

Where do dealers call if they experience difficulties?

Dealers may call FRBNY Primary Dealer Support at 877-376-9837 if they are having system-related problems.

FEES AND SETTLEMENT

How and when are the loans and collateral settled?

Loans and collateral will be exchanged free of payment between securities accounts at the dealer's designated clearing bank. Loans will settle on a T+1 basis.

How are collateral pledges handled?

Collateral pledges must be submitted to the dealer's clearing bank.

When are loans delivered?

Loaned securities are pledged to a dealer's custody account when the dealer sends eligible collateral, adjusted for market value and margin, to the FRBNY custody account.

How is the lending fee calculated?

The securities lending fee rate is applied to the market value of the loaned security on an actual-over-360 basis. Fees are collected at loan maturity.

Will the FRBNY substitute announced collateral for other general collateral?

The FRBNY reserves the right to substitute lent general collateral each day so as to avoid pledging collateral that may trade with scarcity value in the repo market. In addition, the FRBNY can call for collateral substitutions by a dealer if the pledged collateral were to deteriorate in value or quality and fall out of the eligible collateral pools.

Can dealers substitute pledged collateral?

Dealers can substitute eligible pledged general collateral for other program-eligible general collateral.