

Federal Reserve Press Release:

Federal Reserve announces the creation of the Money Market Investor Funding Facility (MMIFF)

October 21, 2008

The Federal Reserve Board on Tuesday announced the creation of the Money Market Investor Funding Facility (MMIFF), which will support a private-sector initiative designed to provide liquidity to U.S. money market investors.

Under the MMIFF, authorized by the Board under Section 13(3) of the Federal Reserve Act, the Federal Reserve Bank of New York (FRBNY) will provide senior secured funding to a series of special purpose vehicles 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.

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. 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. Improved money market conditions will enhance the ability of banks and other financial intermediaries to accommodate the credit needs of businesses and households.

The attached term sheet describes the basic terms and operational details of the facility.

The MMIFF complements the previously announced Commercial Paper Funding Facility (CPFF), 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), 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.

###

Associated Press:

Fed would grant up to \$540B to money market funds

October 21, 2008

WASHINGTON – The Federal Reserve announced Tuesday that it will provide up to \$540 billion in financing to bolster the money market mutual fund industry, its latest effort to get credit flowing more freely again.

The Fed's new program, called the Money Market Investor Funding Facility, will be used to support a private-sector initiative designed to provide liquidity, or cash, to money market investors. The Fed plans to back purchases of short-term debt including certificates of deposit and commercial paper that expire in three months or less from money market mutual funds.

The funds are large buyers of commercial paper and CDs, which historically are considered safe investments. However, the credit crisis, which took a turn for the worse last month, has put money market mutual funds under pressure as skittish investors demand withdrawals.

“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,” the Fed explained.

The Fed is tapping its Depression-era emergency powers to create the new program. It will provide financing to a series of five private-sector facilities — each run by JPMorgan Chase. They will buy commercial paper — issued by highly rated financial institutions — and CDs, bank notes and other eligible short-term debt from the funds. Commercial paper is a short-term financing mechanism used by companies for day-to-day operations.

By doing so, the Fed hopes to take pressure off the funds and to improve credit conditions so banks and other financial institutions will be more inclined to lend to each other, and to consumers and businesses.

“Improved money market conditions will enhance the ability of banks and other financial intermediaries to accommodate the credit needs of businesses and households,” the Fed said.

The Fed is prepared to provide financing up to \$540 billion under the new program, Federal Reserve officials said. Only time will tell how much demand there is. The Fed hopes the new program will give the funds confidence to return to buying commercial paper, CDs and other things.

Money-market mutual funds invest in short-term corporate and government debt that typically carries low risks. The funds are popular places to park cash temporarily but still keep it accessible when needed. They typically earn higher interest than money-market

accounts and savings deposits at banks, which are insured by the Federal Deposit Insurance Corp.

Of the total \$3.45 trillion held in money-market funds as of Friday, about \$858 billion was in so-called “prime” money-market funds — the type that typically invest in commercial paper — according to fund-tracking firm iMoneyNet.

Although a total of nearly \$6 billion flowed out of prime funds on Thursday and Friday of last week, the decline was far milder than it had been last month. For example, during the four-week period ended October 3, assets in prime funds dropped by more than \$514 billion, or about 25 percent, as investors switched to funds offering more security, such as those investing in government debt.

The Fed’s announcement on Tuesday marked its latest effort to break through a credit clog that has hobbled lending and threatens to plunge the country into a deep and painful recession.

For about a month, the Fed has been making billions of dollars worth of loans to money market mutual funds — via banks — to help relieve pressures on the funds. And, in a separate program that launches on October 27, the Fed will buy vast amounts of commercial paper from an array of companies. The flight of money funds and others away from commercial paper has left companies finding it harder and more expensive to raise short-term cash.

###