

Frequently Asked Questions about the Money Market Investor Funding Facility

What is the Money Market Investor Funding Facility?

The Federal Reserve Board created the Money Market Investor Funding Facility on October 21 to support a private-sector initiative to provide liquidity to U.S. money markets. The MMIFF and the initiative are designed to help restore confidence and active trading in the money markets, which are vital to the short-term financing needs of American businesses.

What problems will the MMIFF address?

Short-term credit markets have been under considerable strain in recent weeks. Investors, including money market mutual funds, have had difficulty selling assets into the secondary market. As a result, investors have favored extremely short-term commercial paper (CP) or certificates of deposit (CDs) maturing in seven days or less. The tight markets in longer-dated commercial paper have in turn made it difficult for financial institutions and businesses to raise funds to finance inventory, payroll, and other needs.

A special ICI survey of money market funds in early October found that about half of assets in taxable, non-government money funds (known as prime funds) were invested in highly liquid securities--Treasury and agency securities, plus CP, CDs, and repurchase agreements maturing in seven days or less. This concentration on highly liquid assets limits money market funds' ability to help finance American businesses' operating needs.

How will the MMIFF help?

By funding a ready purchaser of high-quality money market instruments maturing in 90 days or less, the MMIFF should make purchasers of money market instruments more confident about holding securities with longer maturities. That in turn should help restore the secondary market in these instruments and ease credit conditions for issuers and businesses that rely on these forms of financing.

How will the MMIFF work?

A major financial institution will form five private-sector special-purpose vehicles (PSPVs) to purchase eligible money market securities from eligible money market investors. The PSPVs will buy the securities at amortized cost. The Federal Reserve Bank of New York will lend these PSPVs up to \$540 billion to support \$600 billion in purchases. An investor who sells securities to a PSPV will receive 90 percent of the purchase price in cash and 10 percent in the form of asset-backed commercial paper (ABCP) issued by the PSPV.

Who are eligible money market investors?

Initially, the program will buy money market instruments from U.S.-registered money market mutual funds. Over time, other money market investors may become eligible to sell to the PSPVs.

What securities are eligible for this program?

The facility will fund purchases by the PSPVs of certificates of deposit (CDs), bank notes, and commercial paper (CP) issued by highly rated financial institutions with a remaining maturity of 90 days or less. Each PSPV will purchase debt instruments issued by 10 different financial institutions listed in the PSPV's operating documentation.

How will taxpayers be protected from losses?

The risk of loss is limited due to the credit quality and maturity requirements for eligible assets. The MMIFF will only finance purchases of short-term instruments issued by highly rated financial institutions (a short-term debt rating of at least A-1/P-1/F-1 from two or more nationally recognized statistical rating organizations). In addition, the money market investors who sell securities to the PSPVs will retain some risk for credit losses. The loans issued by the New York Fed to a PSPV will be senior and will have recourse to all of the PSPV's assets. The ABCP issued by a PSPV for 10 percent of the purchase price of securities will bear the first risk of any default or downgrade of a financial institution's money market instruments.

The Fed has already announced two facilities to add liquidity to the money markets. How does the MMIFF fit with those?

The MMIFF complements two previously announced facilities:

- The Commercial Paper Funding Facility (CPFF), which on October 27 will begin funding purchases of highly rated, U.S.-dollar denominated, three-month, unsecured and asset-backed commercial paper issued by U.S. issuers; and
- 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 focused on asset-backed commercial paper, and the CPFF will purchase CP directly from issuers. Neither covers purchases of existing unsecured money market instruments, which is the focus of the MMIFF. All three facilities are intended to improve liquidity in short-term debt markets and thereby increase the availability of credit.

How large are the money funds eligible for asset sales funded by the MMIFF?

In mid-October, prime money market funds held \$1.7 trillion in assets.

Why don't money market funds borrow directly from the Federal Reserve?

Money market funds, like other mutual funds and registered investment companies, are strictly regulated by the U.S. Securities and Exchange Commission, but do not fall under the Federal Reserve's jurisdiction and are not eligible to borrow from the Fed's discount window.

When will the MMIFF end?

The PSPVs will cease purchasing assets on April 30, 2009, unless the MMIFF is extended by the Federal Reserve Board.

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