

Alert II – October 28, 2008

## Federal Reserve Bank of New York Launches Program to Facilitate the Issuance of Short-Term Commercial Paper

Recently, the Federal Reserve Bank of New York announced a new program to facilitate the issuance of short-term commercial paper ("CP") by eligible issuers. The program was launched on Monday, October 27, 2008.

The program is being administered by a new special purpose financing vehicle ("SPV") that is referred to as the Commercial Paper Financing Facility, or "CPFF." The CPFF will be funded by the New York Fed on a recourse basis, which means that loans made by the New York Fed will be fully secured by all of the assets of the SPV.

The SPV will purchase from eligible issuers three-month dollar-denominated CP. Eligible issuers must sell their CP to the SPV through one of the New York Fed's approved primary dealers in CP. The SPV will only purchase CP that is rated at least A-1/P-1/F1 by a major nationally recognized statistical rating organization such as Standard & Poor's, Moody's or Fitch.

The maximum amount of CP from any issuer that the SPV can own at any time is the greatest amount of CP that the particular issuer had outstanding on any day between January 1, 2008 and August 31, 2008. Pricing will depend on whether the CP being issued is unsecured or asset-backed and will be based on the then-current 3-month overnight index swap rate ("OIS") plus a fixed spread. For unsecured CP, the fixed spread over OIS will be 100 basis points (1%); for asset-backed CP, the fixed spread will be 300 basis points (3%). There will also be a one-time surcharge to sell unsecured CP to the SPV equal to 100 basis points (1%) of the amount being sold. The SPV will not purchase interest bearing CP. Instead, the price and any surcharge will be used to determine a discounted amount that will be paid to the issuer at time of sale, and the issuer must repay the face amount at maturity.

To participate in the CPFF, an issuer must register with the New York Fed, and pay a facility fee at the time of registration equal to 10 basis points (0.1%) of the maximum amount of CP that the issuer certifies as being its limit. Issuers that did not register prior to October 27 will have to wait 2 business day after registering before they can begin to sell CP to the SPV. The registration form and instructions are available at <http://www.newyorkfed.org/markets/cpff.html>.

The CPFF will continue until April 30, 2009, at which time no further purchases of CP will be made by the SPV. At the present time, municipal issuers of CP are not eligible to participate in the CPFF.