11-23-2008

Minutes of the Board of Governors of the Federal Reserve System 11-23-2008

Ben S. Bernanke

Donald L. Kohn

Kevin Warsh

Randall S. Kroszner

Elizabeth A. Duke

MINUTES OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DATE: November 23, 2008

TIME: 12:00 noon

LOCATION: Board Room

ATTENDANCE:

Mr. Bernanke, Chairman
Mr. Kohn, Vice Chairman
Mr. Warsh (participated by telephone)
Mr. Kroszner (participated by telephone)
Ms. Duke

Office of the Secretary

Ms. Johnson, Secretary
Mr. Frierson, Deputy Secretary
Ms. Shanks, Associate Secretary
Ms. Beattie, Assistant to the Secretary

Office of Board Members

Ms. Smith, Director
Mr. Blanchard, Assistant to the Board
Mr. Skidmore, Assistant to the Board
Mr. Gross, Special Assistant to the Board (participated by telephone)
Mr. Pribble, Special Assistant to the Board (participated by telephone)

Legal Division

Mr. Alvarez, General Counsel
Mr. Ashton, Deputy General Counsel
Mr. Fallon, Assistant General Counsel (participated by telephone)
Mr. Van Der Weide, Assistant General Counsel

Division of Research and Statistics

Mr. Stockton, Director (participated by telephone)
Mr. Parkinson, Deputy Director
Ms. Liang, Associate Director

Division of Monetary Affairs

Mr. Madigan, Director
Mr. Clouse, Deputy Director
Ms. Danker, Deputy Director
Mr. English, Deputy Director
Mr. Carpenter, Deputy Associate Director

Division of Banking Supervision and Regulation

Ms. Bailey, Deputy Director
Ms. Barger, Deputy Director (participated by telephone)
Ms. Stefansson, Associate Director
Mr. Treacy, Adviser (participated by telephone)

Division of Reserve Bank Operations and Payment Systems

Mr. Marquardt, Deputy Director

Office of Staff Director for Management

Mr. Malphrus, Staff Director

Other Supporting Staff

Federal Reserve Bank of New York

Mr. Dudley, Executive Vice President (participated by telephone)

FINANCIAL MARKETS -- Proposed agreement by the U.S. government to provide capital, guarantees, and residual financing to Citigroup Inc.

Discussed.
Approved.
November 23, 2008.

Today, the Board considered an agreement by the U.S. government with Citigroup Inc. (Citigroup), New York, New York, one of the largest financial institutions in the United States and a major provider of credit and other services domestically and abroad, against the current background of significant fragility in financial markets. Available evidence suggested that investors were becoming increasingly concerned about the company's prospects, which would threaten Citigroup's ability to continue to obtain funding. The Department of the Treasury (Treasury), Federal Deposit Insurance Corporation (FDIC), and Federal Reserve proposed a package of coordinated actions intended to help restore confidence in Citigroup, help it and the financial system weather the ongoing disruptions in financial markets, and promote financial stability.

The assistance to be provided to Citigroup under the proposed agreement has three major components. Treasury would invest $20 billion in Citigroup from the Troubled Asset Relief Program in exchange for preferred stock that would pay an 8 percent dividend. Treasury and the FDIC would share with Citigroup losses on a designated pool of Citigroup assets of up to $306 billion in loans and securities that are backed by residential and commercial real estate and certain other assets. Finally, the Federal Reserve would provide residual financing, if necessary, to Citigroup for the value of assets remaining in the pool after certain loss-sharing arrangements among Citigroup, Treasury, and the FDIC are exhausted.

The proposed FDIC protection would require invoking the systemic-risk exception to the least-cost-resolution requirements in the Federal Deposit Insurance Act, which generally require the FDIC to resolve a troubled insured depository institution in a manner that is least costly to the deposit insurance fund. In light of all the facts and circumstances, including the condition of the financial markets, the state of the U.S. economy, and the size, importance, and interconnectedness of Citigroup, the Board determined that the FDIC's compliance with the least-cost-resolution requirements of the act in connection with providing the proposed assistance to Citibank, N.A. and its insured depository institution affiliates would have serious adverse effects on economic conditions and financial stability. The Board also determined that participation by the FDIC in the proposed program was the type of action and assistance the systemic-risk exception authorized, would assist in stabilizing Citigroup and its insured depository institution subsidiaries, and would avoid or mitigate the potential for serious adverse effects on economic conditions and financial stability. It was understood that the Secretary of the Treasury would be advised of the Board's determination, in accordance with the statutory procedures for invoking the systemic-risk exception. (NOTE: A final memorandum summarizing the considerations for invoking the systemic-risk exception for Citibank, N.A. was distributed to the Board on December 3, 2008.)

The proposed residual Federal Reserve financing would require the Board's authorization under section 13(3) of the Federal Reserve Act. Given the unusual and exigent circumstances, and in accordance with the proposed agreement with Citigroup, the Board authorized the Federal Reserve Bank of New York under section 13(3), if necessary, to provide Citigroup with financing up to the value of the assets remaining in the designated pool after the loss-sharing arrangements with Citigroup, Treasury, and the FDIC are exhausted if the New York Reserve Bank obtains evidence that the borrower is unable to secure adequate credit accommodations from other banking institutions. Credit extensions must be fully secured to the satisfaction of the New York Reserve Bank by the assets in the designated pool on a nonrecourse basis, except with respect to interest payments. The New York Reserve Bank may impose additional conditions on any extension of credit under this authorization as the Reserve Bank deems appropriate. The Board also approved the recommendation of the New York Reserve Bank that credit to Citigroup under the proposed agreement be extended at a floating rate equal to the three-month overnight index swap rate plus 300 basis points. (NOTE: As required by section 129 of the Emergency Economic Stabilization Act of 2008, the Board approved a report of this action to the Congress by notation voting on December 1 and approved a periodic report that updated this report by notation voting on December 29, 2008.)

Participating in these determinations and voting for these actions:
Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Duke.

Background: None.

Implementation: Interagency press release with attached term sheet, November 23, and letter from Chairman Bernanke to Mr. Paulson, Secretary of the Treasury, December 2, 2008.

CITIGROUP INC. -- Proposed authorization to provide liquidity support to Citigroup's London-based broker-dealer subsidiary.

Discussed.
Approved.
November 23, 2008.

At its meeting on September 21, 2008, the Board had authorized the Federal Reserve Bank of New York under section 13(3) of the Federal Reserve Act to extend credit to the U.K. broker-dealer subsidiaries of Goldman Sachs, Morgan Stanley, and Merrill Lynch, all in New York, New York, against collateral acceptable at the Primary Dealer Credit Facility (PDCF). Today, the Board decided to authorize the New York Reserve Bank to extend credit to the London-based broker-dealer subsidiary of Citigroup Inc. (Citigroup), also in New York, under the same terms and conditions applicable to those organizations.

Given the unusual and exigent circumstances, the Board authorized the New York Reserve Bank under section 13(3) of the Federal Reserve Act to extend credit to Citigroup's London-based broker-dealer subsidiary if the New York Reserve Bank obtains evidence that the borrower is unable to secure adequate credit accommodations from other banking institutions. Credit extensions under the facility must be fully secured to the satisfaction of the New York Reserve Bank and must be secured by the types of collateral accepted at the PDCF by the Reserve Bank. The New York Reserve Bank may impose such additional conditions on any extension of credit under the facility as the Reserve Bank deems appropriate. The Board also approved the recommendation of the New York Reserve Bank that credit to Citigroup under the facility be extended at the primary credit rate. (NOTE: As required by section 129 of the Emergency Economic Stabilization Act of 2008, the Board approved a periodic report that included this action to the Congress by notation voting on December 29, 2008.)

Participating in this determination and voting for this action:
Chairman Bernanke, Vice Chairman Kohn, and Governors Warsh, Kroszner, and Duke.

Background: None.

Implementation: None.