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Treasury Announces Guaranty Program for Money Market Funds

Washington- The U.S. Treasury Department today announced the establishment of a temporary guaranty program for the U.S. money market mutual fund industry. For the next year, the U.S. Treasury will insure the holdings of any publicly offered eligible money market mutual fund – both retail and institutional – that pays a fee to participate in the program.

President George W. Bush approved the use of existing authorities by Secretary Henry M. Paulson, Jr. to make available as necessary the assets of the Exchange Stabilization Fund for up to \$50 billion to guarantee the payment in the circumstances described below.

Money market funds play an important role as a savings and investment vehicle for many Americans; they are also a fundamental source of financing for our capital markets and financial institutions. Maintaining confidence in the money market fund industry is critical to protecting the integrity and stability of the global financial system.

Concerns about the net asset value of money market funds falling below \$1 have exacerbated global financial market turmoil and caused severe liquidity strains in world markets. In turn, these pressures have caused a spike in some short term interest and funding rates, and significantly heightened volatility in exchange markets. Absent the provision of such financing, there is a substantial risk of further heightened global instability.

Maintenance of the standard \$1 net asset value for money market mutual funds is important to investors. If the net asset value for a fund falls below \$1, this undermines investor confidence. The program provides support to investors in funds that participate in the program and those funds will not "break the buck".

This action should enhance market confidence and alleviate investors' concerns about the ability for money market mutual funds to absorb a loss. Investors in money market mutual funds with a net asset value that falls below \$1 would be notified that their fund triggered the insurance program.

The Exchange Stabilization Fund was established by the Gold Reserve Act of 1934. This Act authorizes the Secretary of the Treasury, with the approval of the President, "to deal in gold, foreign exchange, and other instruments of credit and securities" consistent with the obligations of the U.S. government in the International Monetary Fund to promote international financial stability. More information on the Exchange Stabilization Fund can be found at <http://www.treas.gov/offices/international-affairs/esf/>.