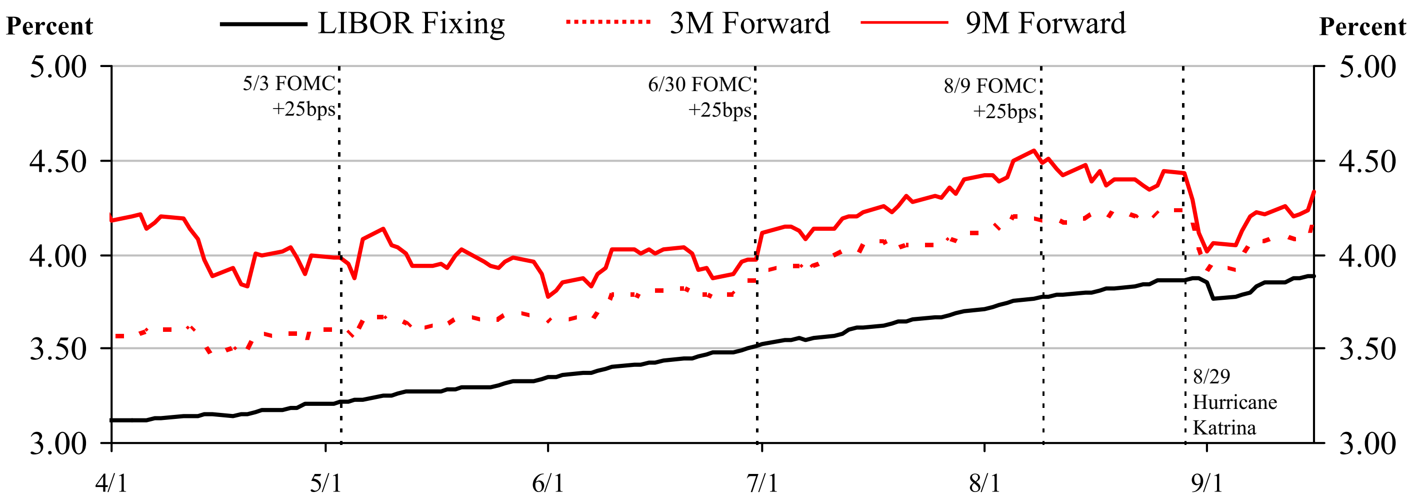
Appendix 1: Materials used by Mr. Kos

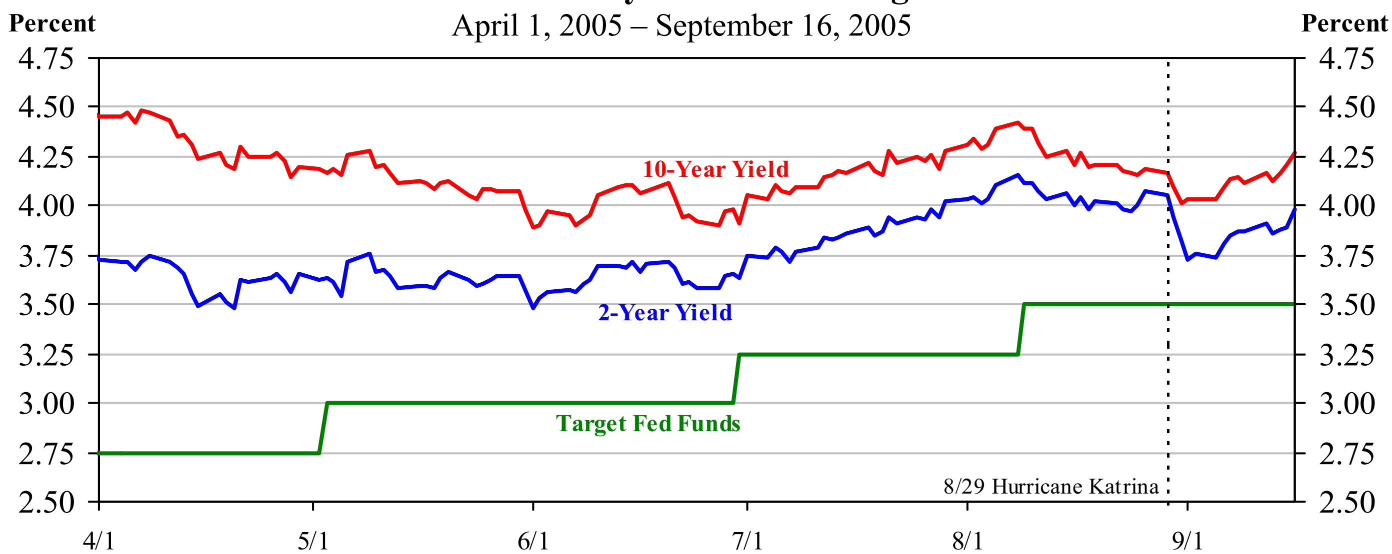
Current U.S. 3-Month Deposit Rates and Rates Implied by Traded Forward Rate Agreements

April 1, 2005 – September 16, 2005

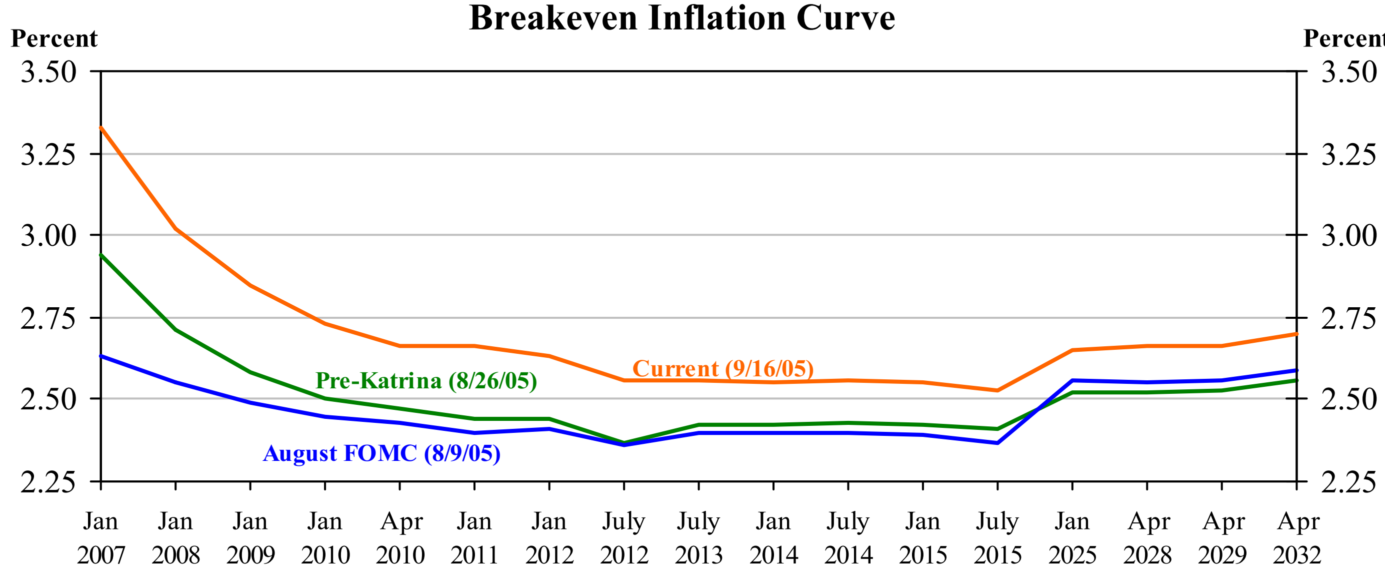


2- and 10-Year Treasury Yields and Target Fed Funds

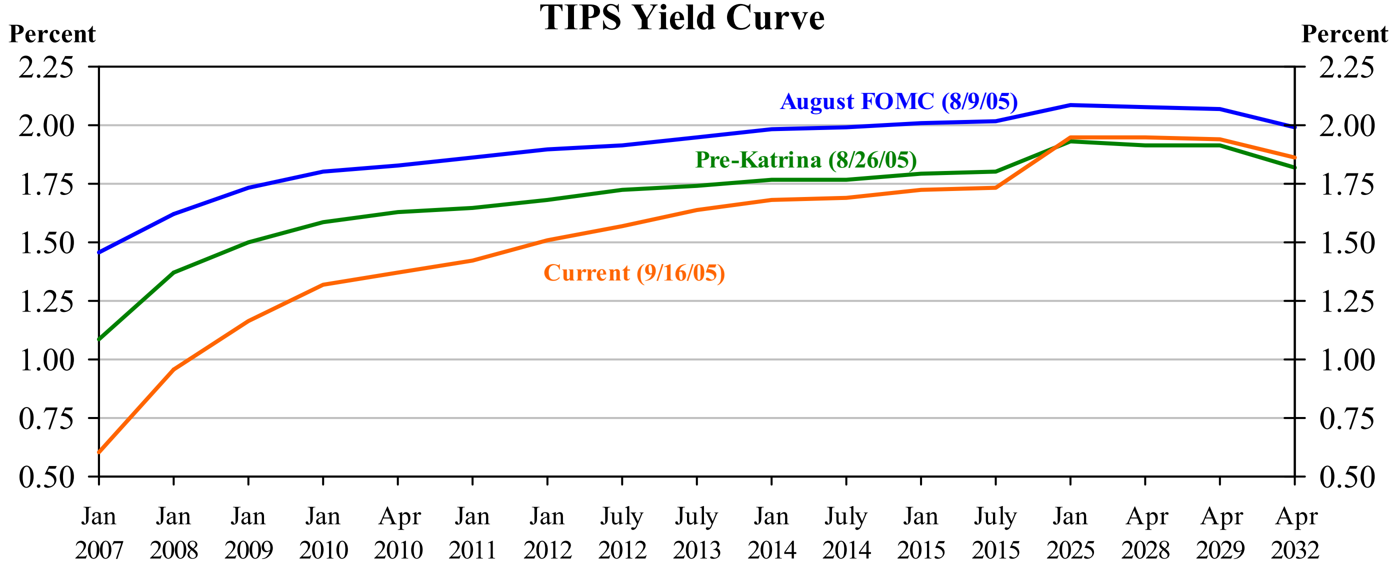
April 1, 2005 – September 16, 2005



Breakeven Inflation Curve

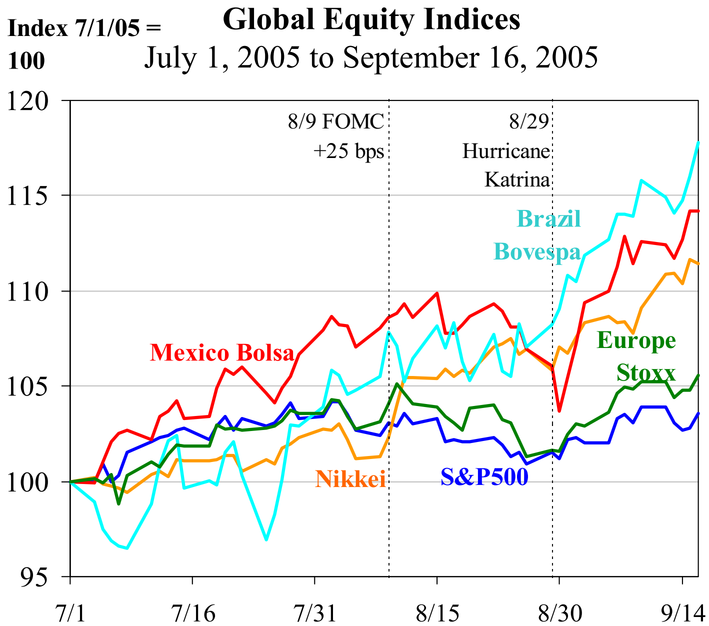


TIPS Yield Curve



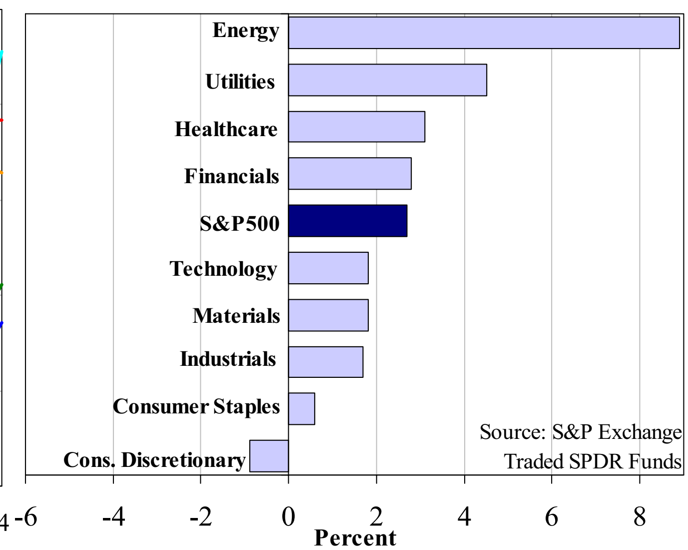
Global Equity Indices

July 1, 2005 to September 16, 2005



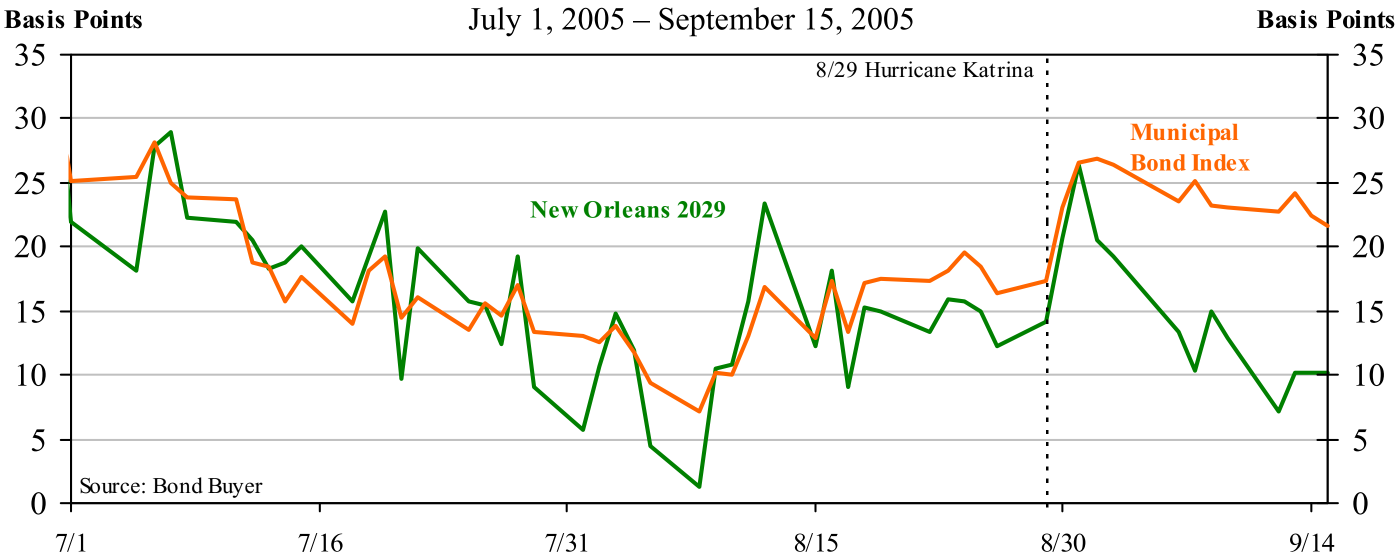
Select Equity Performance

August 26, 2005 to September 16, 2005



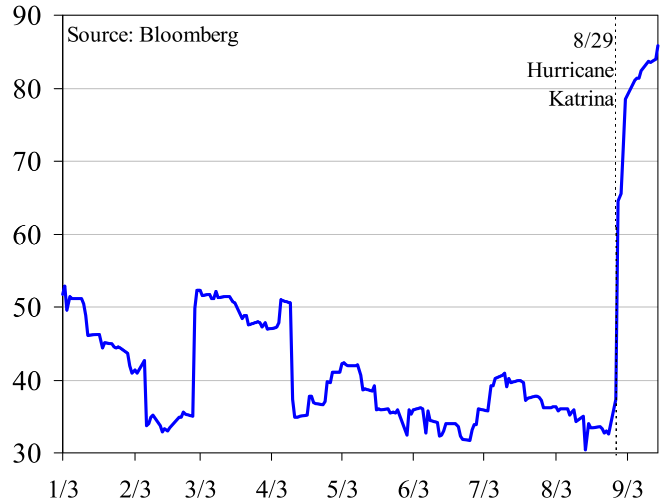
Municipal Bonds Spreads to Treasuries

July 1, 2005 – September 15, 2005



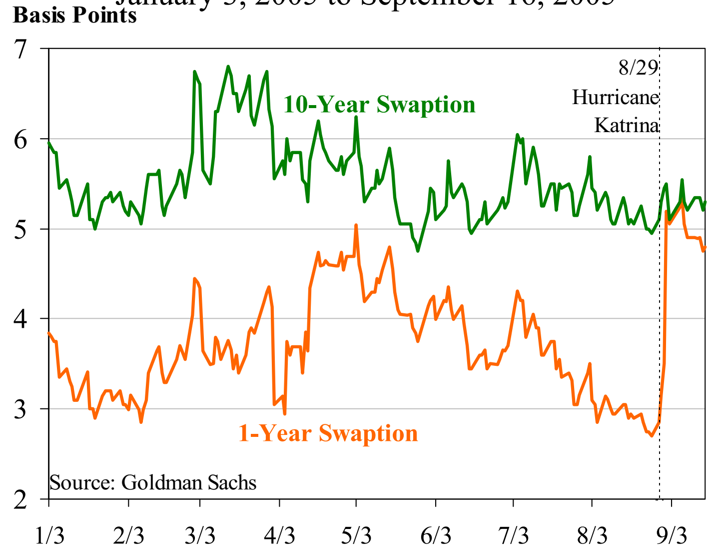
Front Month Gasoline Futures 1-Month Implied Volatility

January 3, 2005 to September 16, 2005



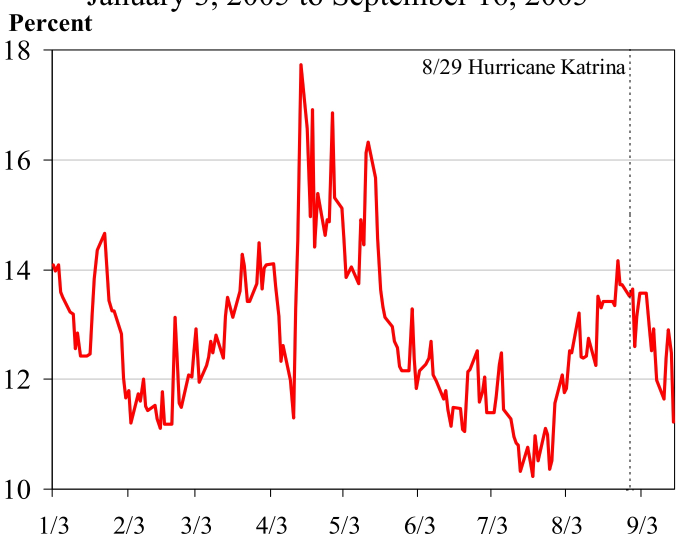
1-Month Implied Swaption Volatility

January 3, 2005 to September 16, 2005



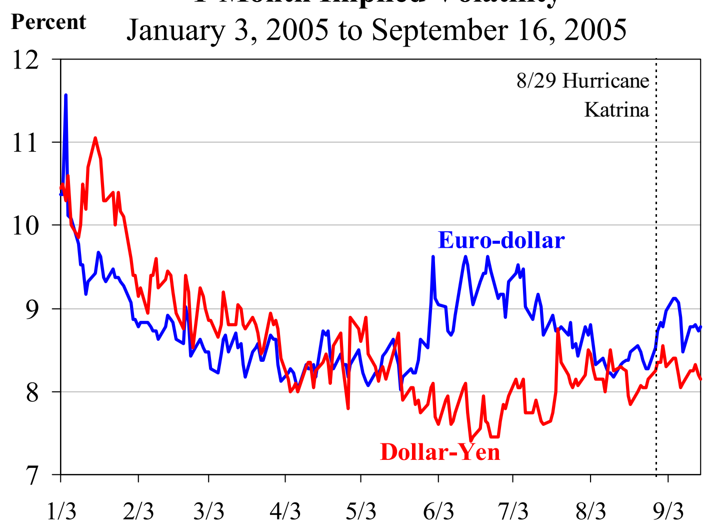
VIX Implied Volatility on the S&P 100

January 3, 2005 to September 16, 2005



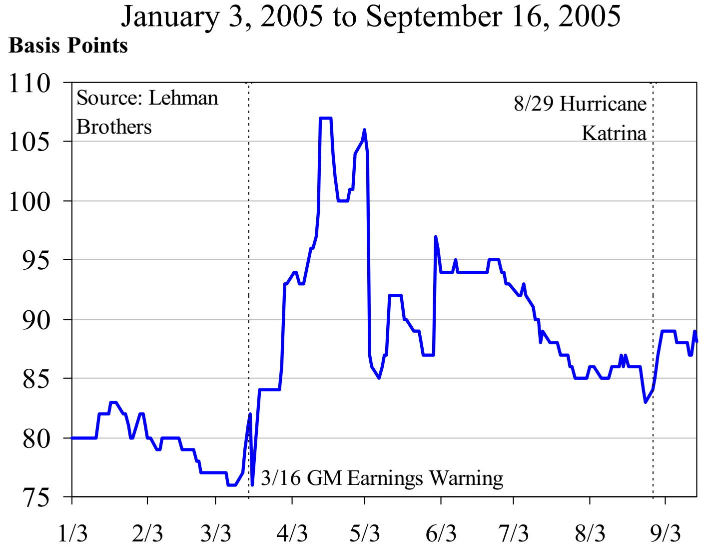
Euro-Dollar and Dollar-Yen 1-Month Implied Volatility

January 3, 2005 to September 16, 2005



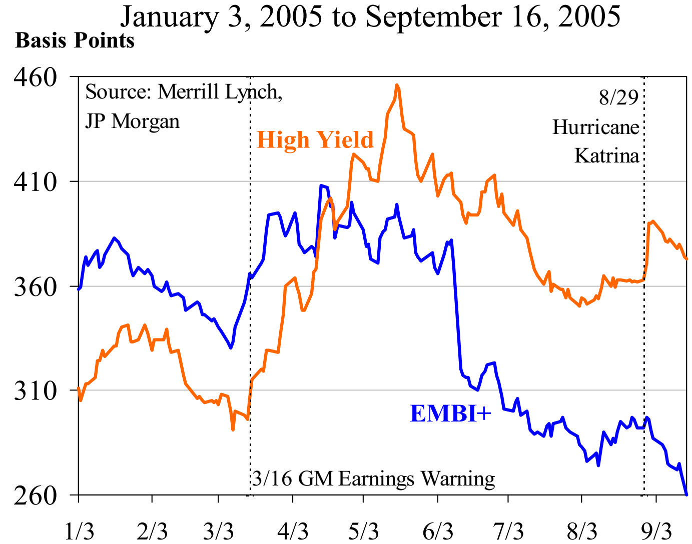
Investment Grade OAS Spread

January 3, 2005 to September 16, 2005

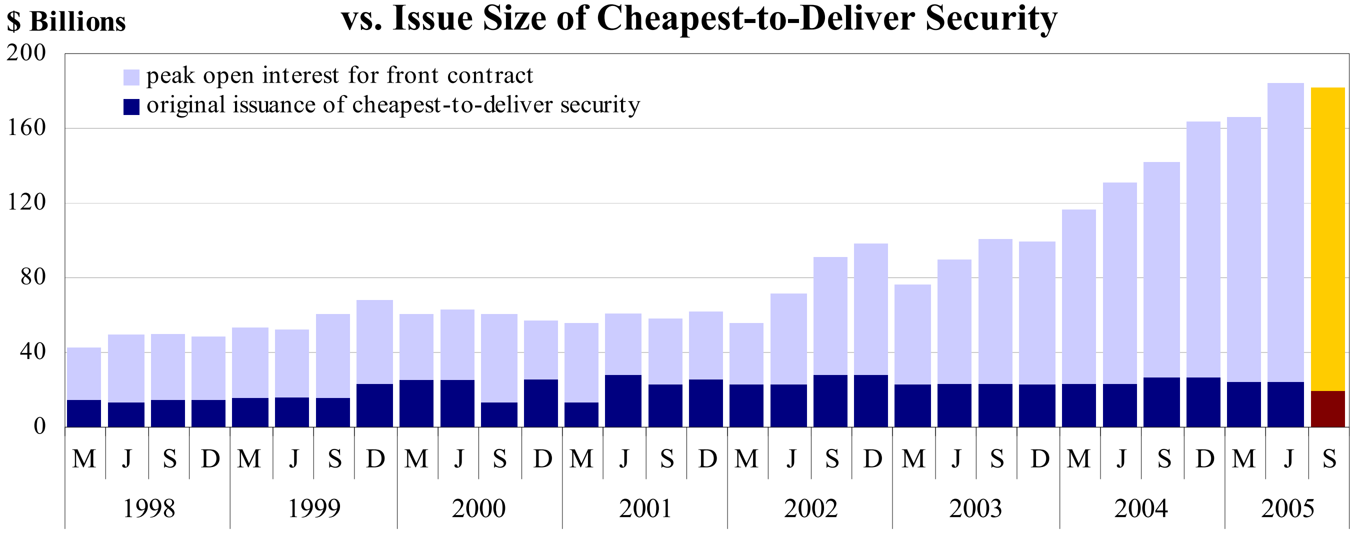


High Yield and Emerging Markets Indices

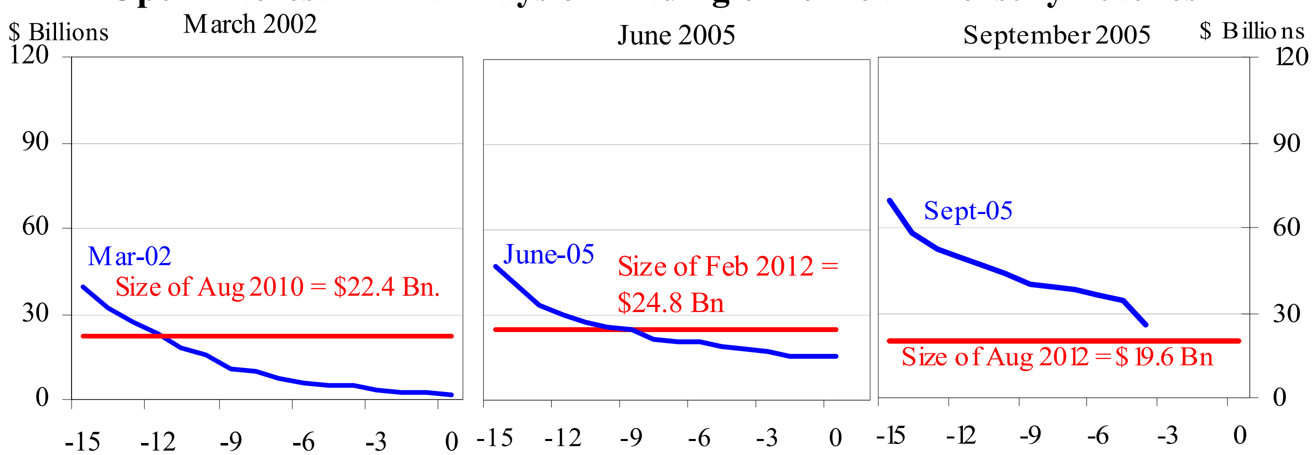
January 3, 2005 to September 16, 2005



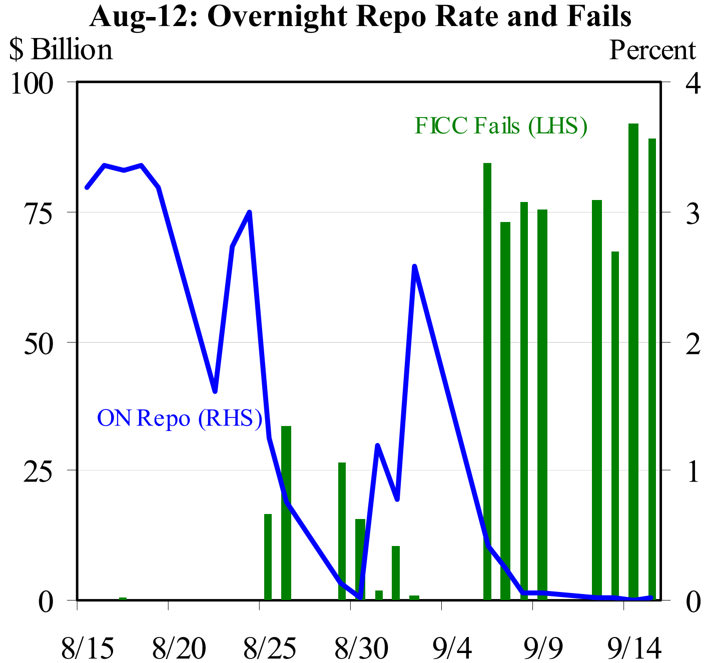
Peak Open Interest in 10-Yr Treasury Futures Contract vs. Issue Size of Cheapest-to-Deliver Security



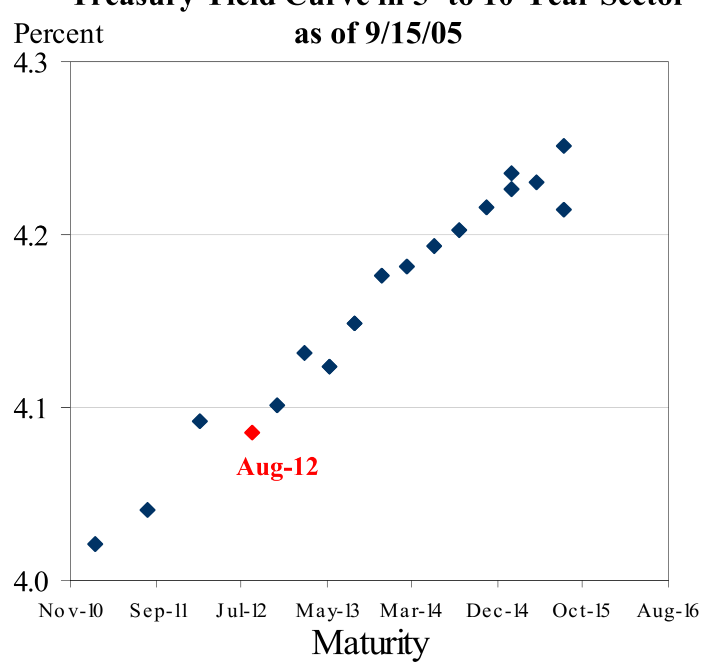
Open Interest in Final Days of Trading of 10-Year Treasury Futures



Aug-12: Overnight Repo Rate and Fails



Treasury Yield Curve in 5- to 10-Year Sector as of 9/15/05



Appendix 2: Materials used by Mr. Reinhart

Material for

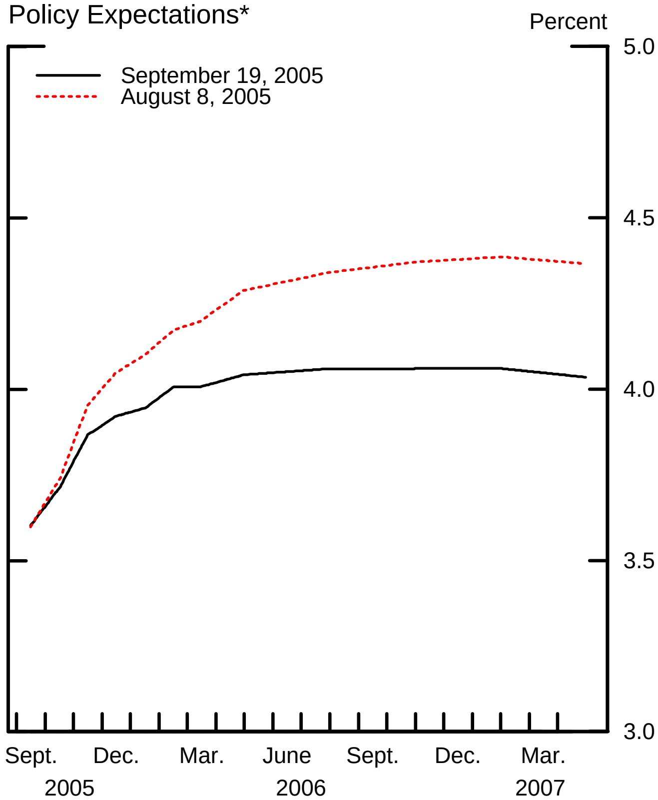
FOMC Briefing on Monetary Policy Alternatives

Vincent R. Reinhart
September 20, 2005

Exhibit 1

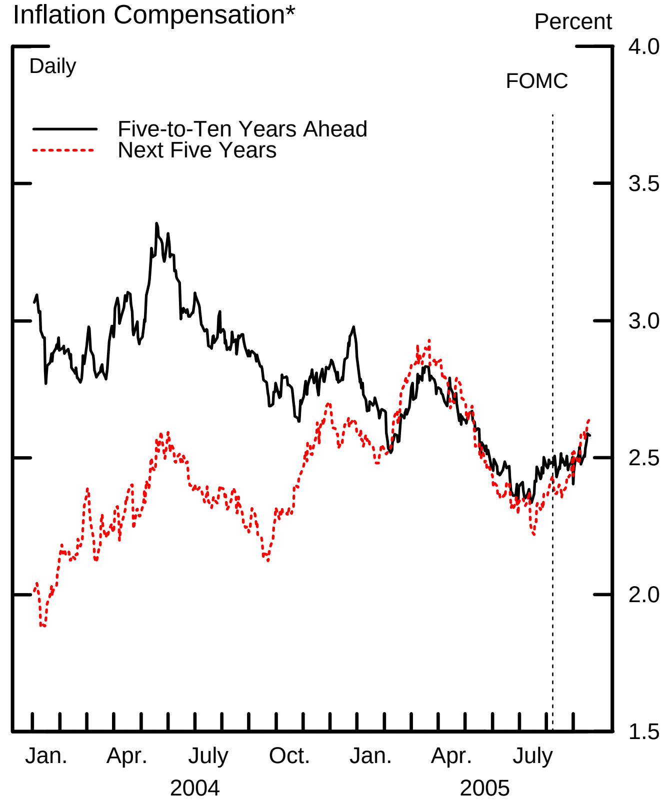
Policy Background

Policy Expectations*



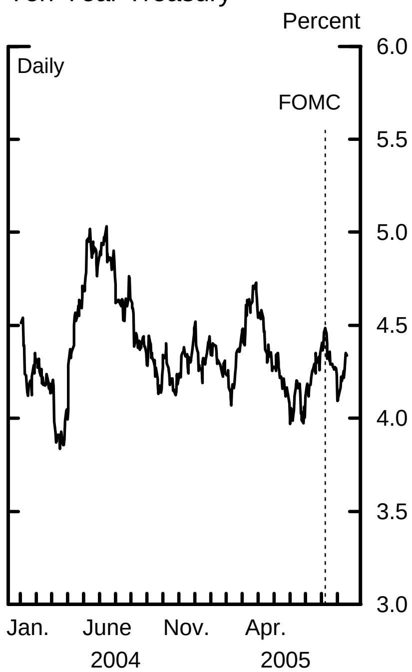
*Estimates from federal funds and eurodollar futures, with an allowance for term premia and other adjustments.

Inflation Compensation*



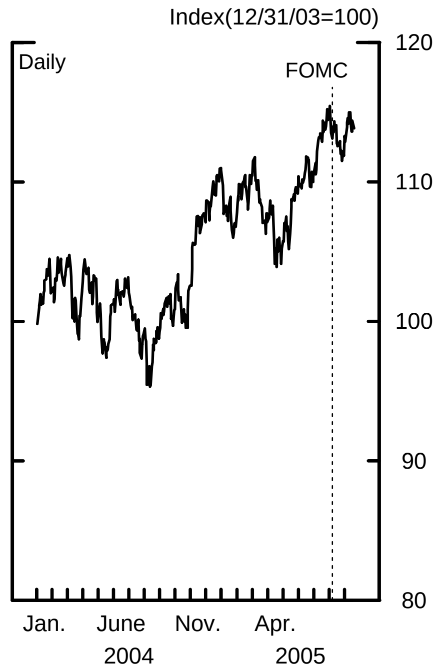
*Based on a comparison of a smoothed TIPS yield curve to a smoothed nominal off-the-run Treasury yield curve.

Ten-Year Treasury*

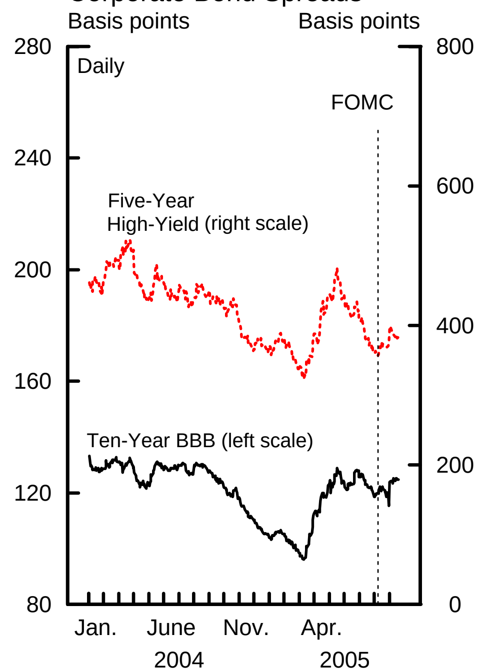


*Par yields from a smoothed nominal off-the-run Treasury yield curve.

Wilshire 5000



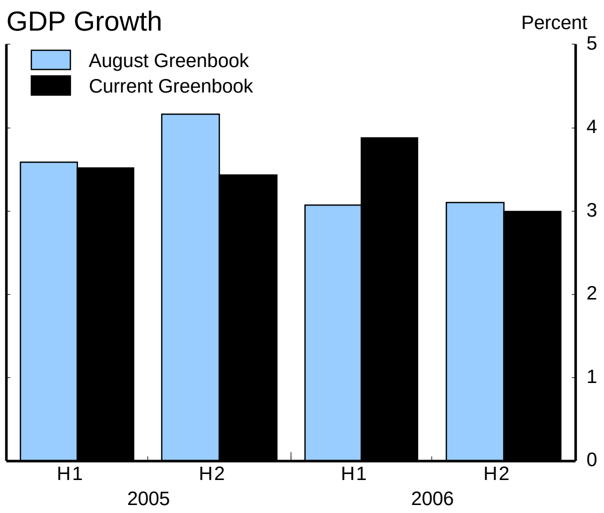
Corporate Bond Spreads*



*Measured relative to an estimated off-the-run Treasury yield curve.

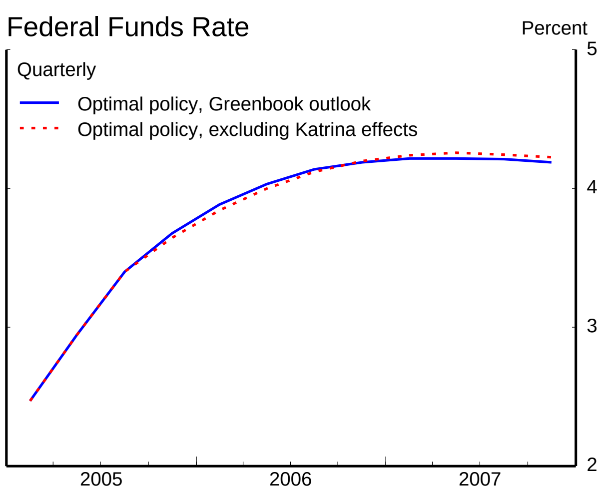
Exhibit 2

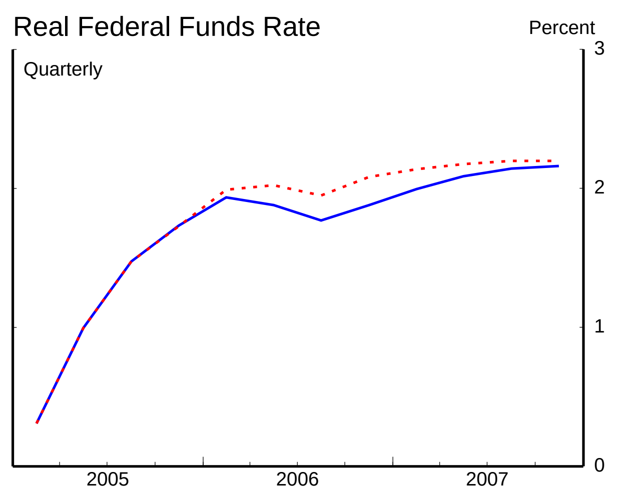
Staff Assessment

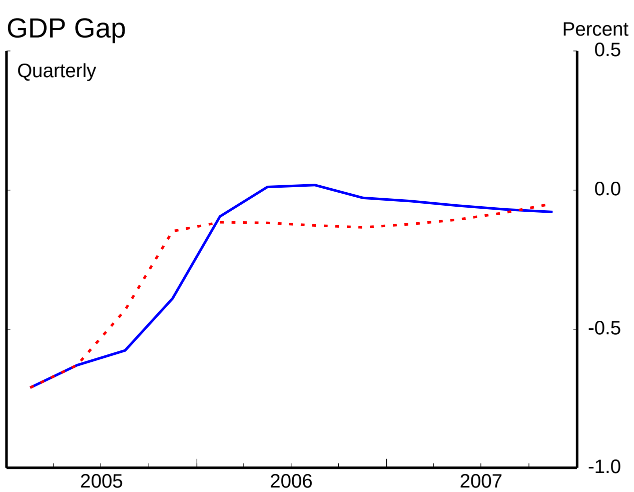


PCE Inflation

	PCE	Core PCE
2005H1	2.8	2.0
August Greenbook	*2.8*	*2.1*
2005H2	3.8	1.9
August Greenbook	*2.4*	*2.0*
2006H1	1.7	2.4
August Greenbook	*2.2*	*2.1*
2006H2	2.0	2.2
August Greenbook	*2.0*	*2.1*







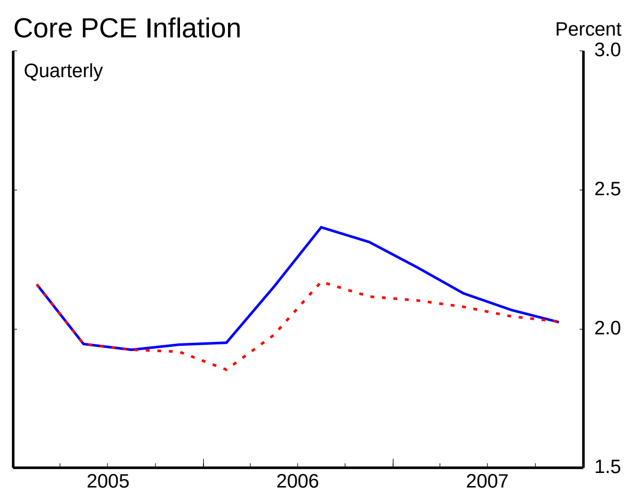


Exhibit 3

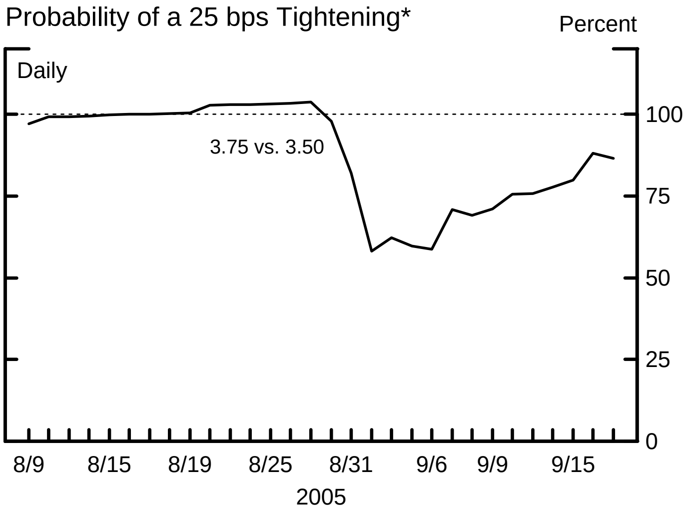
Policy Alternatives

Guidance	Action: No Change — Sure	Action: No Change — Unsure	Action: Increase 25 bps — Unsure	Action: Increase 25 bps — Sure
Measured Pace	A-	A	B	B+
Risk Formula				
None				

Stare Decisis

- Stare decisis means "Let the decision stand," to adhere to precedent and not unsettle things that are established.
- Justice Frankfurter noted that it "embodies an important social policy that represents an element of continuity and is rooted in the psychological need to satisfy reasonable expectations."

Probability of a 25 bps Tightening*



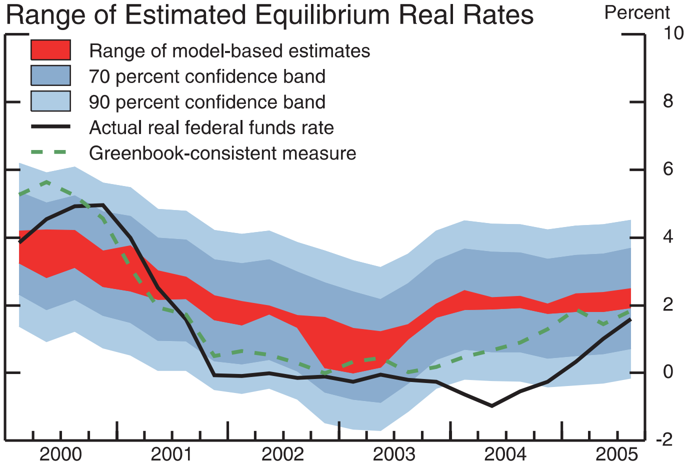
*Based on October 2005 federal funds contract.

Desk Survey

- Most of the 22 primary dealers expect key statement features will be retained.
- Only two think the reference to "accommodative" policy will be changed or dropped.
- Three anticipate upside inflation risks. One expects downside growth risks.
- Four expect modification or deletion of the "measured pace" language.

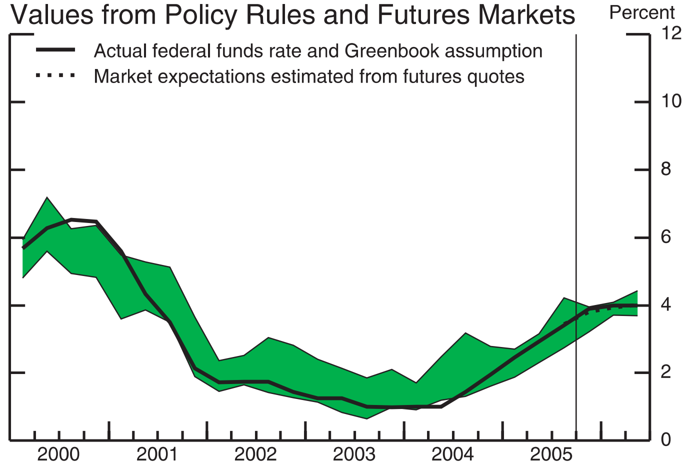
Exhibit 4
Arguments for A and B

Range of Estimated Equilibrium Real Rates



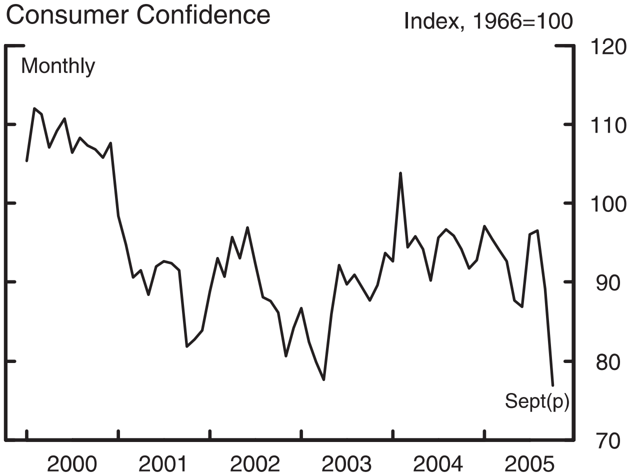
See explanatory note in Chart 5 of the Bluebook.

Values from Policy Rules and Futures Markets



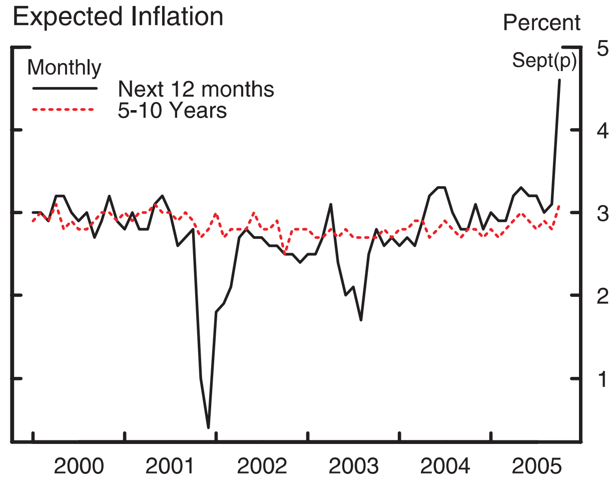
See explanatory note in Chart 6 of the Bluebook.

Consumer Confidence



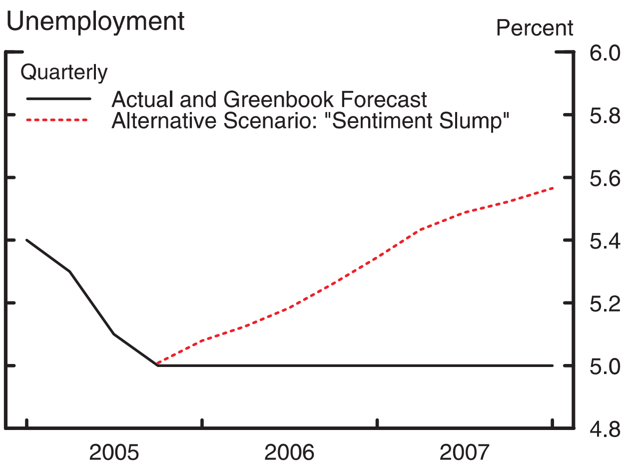
Source: Michigan SRC
p-Preliminary

Expected Inflation



Source: Michigan SRC
p-Preliminary

Unemployment



Core PCE Inflation

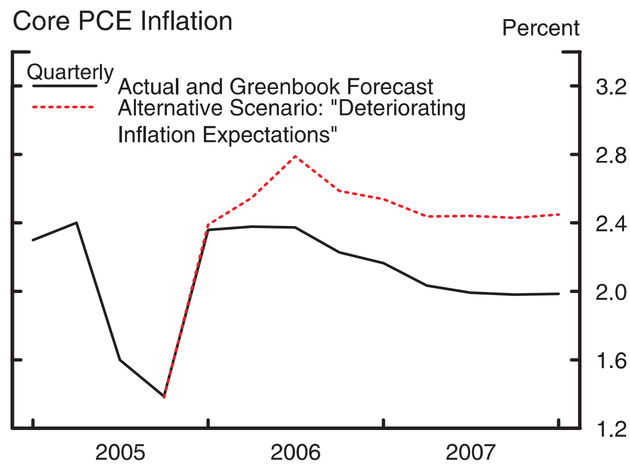


Exhibit 5

Assessment of Risks

Alternative B With Risk Formula

The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 3¾ percent.

Output appeared poised to continue growing at a good pace before the tragic toll of Hurricane Katrina. The widespread devastation in the Gulf region, the associated dislocation of economic activity, and the boost to energy prices imply that spending, production, and employment will be set back in the near term. In addition to elevating premiums for some energy products, the disruption to the production and refining infrastructure may add to energy price volatility.

While these unfortunate developments have increased uncertainty about near-term economic performance, it is the Committee's view that they do not pose a more persistent threat. Rather, monetary policy accommodation, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity.

Higher energy and other costs have the potential to add to inflation pressures. However, core inflation has been relatively low in recent months, and longer-term inflation expectations remain contained.

The Committee's economic outlook is such that, if the federal funds rate were maintained at its current level for the next several quarters, output growth is more likely to be above than below its sustainable pace. Inflation over the same period is more likely to increase than decrease. [As a result, the Committee views the near-term risks to its dual objectives as tilted to the upside.] In any event, the Committee is prepared to take the steps necessary to maintain price stability and sustainable economic growth.

Alternative B Without Guidance

The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 3¾ percent.

Output appeared poised to continue growing at a good pace before the tragic toll of Hurricane Katrina. The widespread devastation in the Gulf region, the associated dislocation of economic activity, and the boost to energy prices imply that spending, production, and employment will be set back in the near term. In addition to elevating premiums for some energy products, the disruption to the production and refining infrastructure may add to energy price volatility.

While these unfortunate developments have increased uncertainty about near-term economic performance, it is the Committee's view that they do not pose a more persistent threat.

Higher energy and other costs have the potential to add to inflation pressures. However, core inflation has been relatively low in recent months, and longer-term inflation expectations remain contained.

Exhibit 6 (Last Page)

Table 1: Alternative Language for the September FOMC Announcement (September 20, 2005)

	August FOMC	Alternative A	Alternative B
Policy Decision	1. The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 3½ percent.	The Federal Open Market Committee decided today to leave its target for the federal funds rate unchanged.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 3¾ percent.
Rationale	2. The Committee believes that, even after this action, the stance of monetary policy remains accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity.	The Committee deferred further policy firming in light of the uncertainties surrounding the economic effects of Hurricane Katrina.	[none/see below]
	3. Aggregate spending, despite high energy prices, appears to have strengthened since late winter, and labor market conditions continue to improve gradually.	Output appeared poised to continue growing at a good pace before the tragic toll of the hurricane. The widespread devastation in the Gulf region, the associated dislocation of economic activity, and the boost to energy prices imply that spending, production, and employment will be set back in the near term. In addition to elevating premiums for some energy products, ~~Moreover,~~ the disruption to the production and refining infrastructure ~~has elevated premiums for energy products and~~ may add to energy price ~~market~~ volatility.	Output appeared poised to continue growing at a good pace before the tragic toll of Hurricane Katrina. The widespread devastation in the Gulf region, the associated dislocation of economic activity, and the boost to energy prices imply that spending, production, and employment will be set back in the near term. In addition to elevating premiums for some energy products, ~~Moreover,~~ the disruption to the production and refining infrastructure ~~has elevated premiums for energy products and~~ may add to energy price ~~market~~ volatility. While these unfortunate developments have increased uncertainty about near-term economic performance, it is the Committee's view that they do not pose a more persistent threat. Rather, ~~remaining~~ monetary policy accommodation, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity.
	4. Core inflation has been relatively low in recent months and longer-term inflation expectations remain well contained, but pressures on inflation have stayed elevated.	Higher energy and other costs have the potential to add to inflation pressures. However, core inflation has been relatively low in recent months, and longer-term inflation expectations remain ~~well~~ contained.	Higher energy and other costs have the potential to add to inflation pressures. However, core inflation has been relatively low in recent months, and longer-term inflation expectations remain ~~well~~ contained.
Assessment of Risk	5. The Committee perceives that, with appropriate monetary policy action, the upside and downside risks to the attainment of both sustainable growth and price stability should be kept roughly equal.	[no change]	[no change]
	6. With underlying inflation expected to be contained, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.	[no change]	[no change]