Appendix 1: Materials used by Mr. Sack

Material for

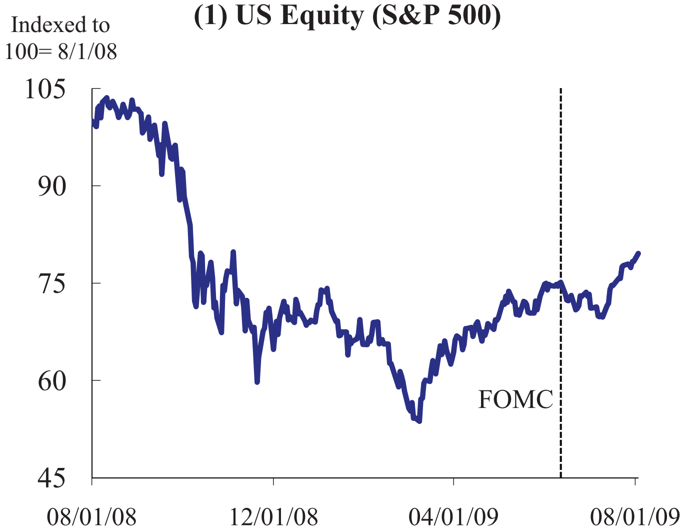
FOMC Presentation:
Financial Market Developments and Desk Operations

Brian Sack

August 12, 2009

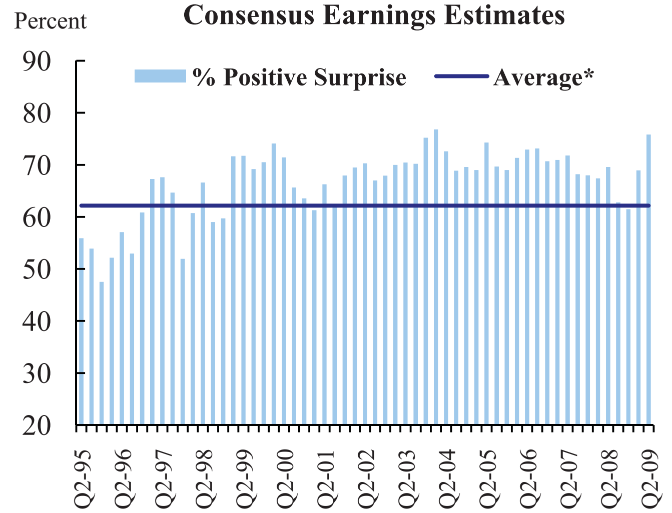
Exhibit 1

(1) US Equity (S&P 500)



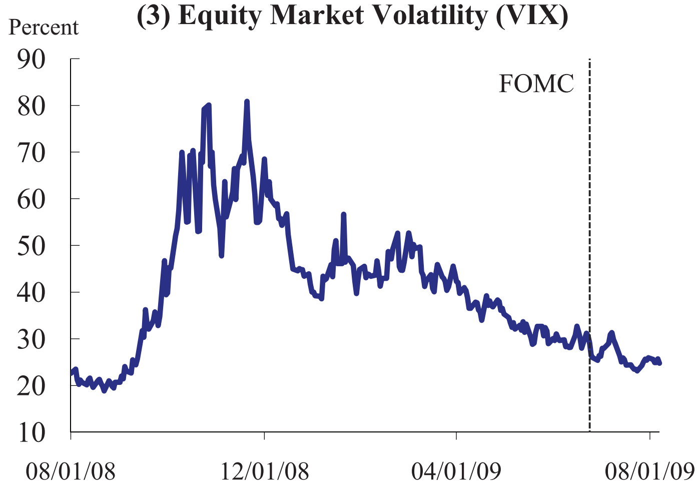
Source: Bloomberg

(2) Proportion of S&P 500 Companies Exceeding Consensus Earnings Estimates



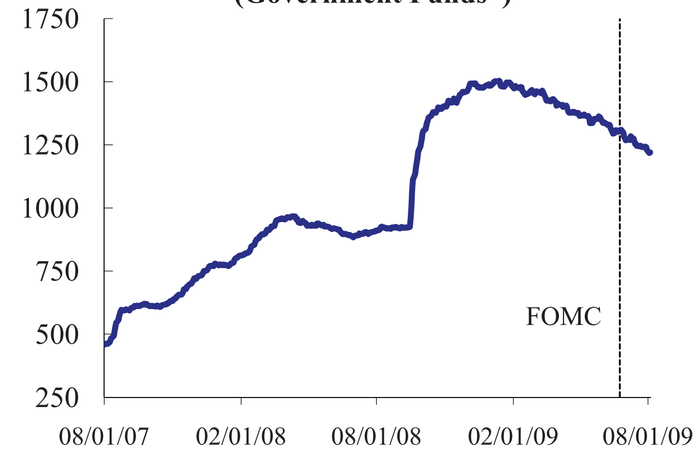
*Average computed since 1991
Source: Reuters, Bloomberg

(3) Equity Market Volatility (VIX)



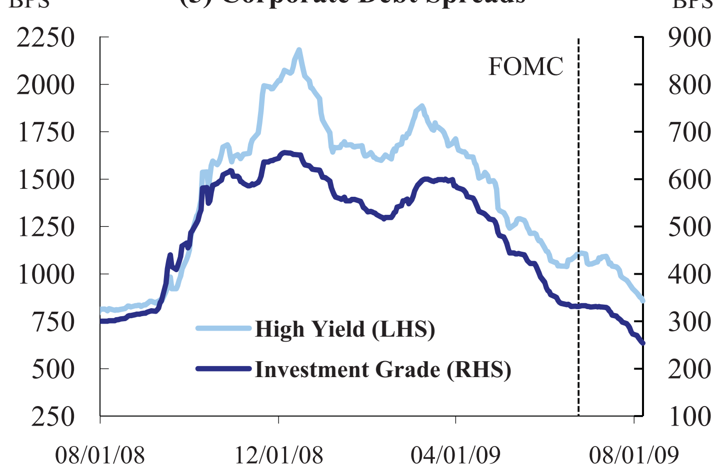
Source: Bloomberg

(4) Money Market Mutual Fund Assets (Government Funds*)



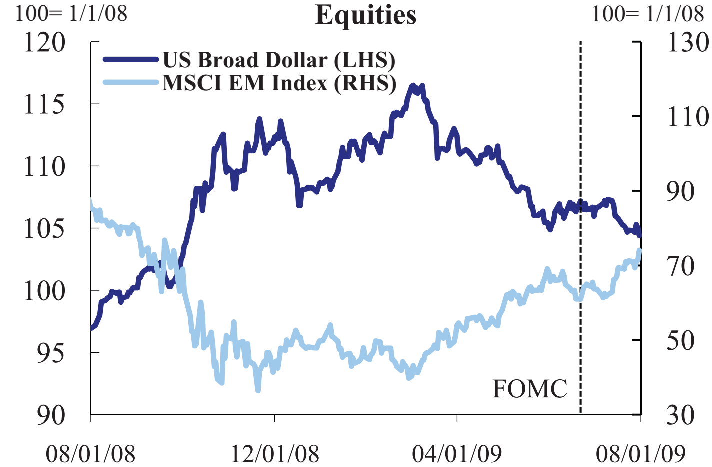
*Includes funds that hold Treasury, Agency, and Repo only
Source: iMoneyNet

(5) Corporate Debt Spreads

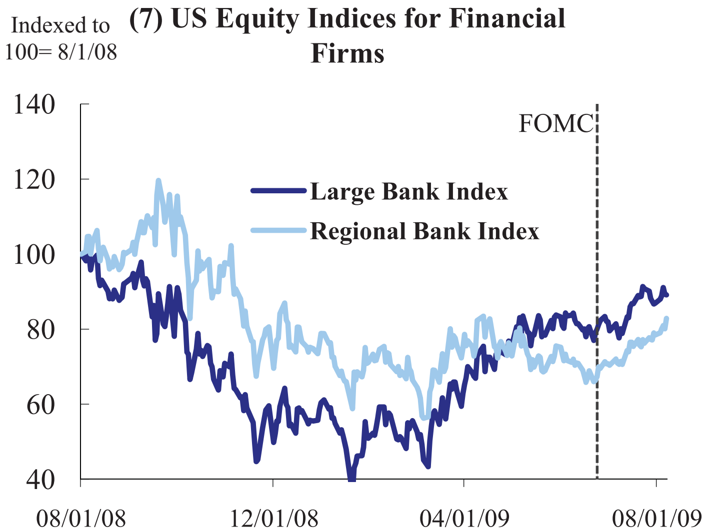


Source: Bank of America

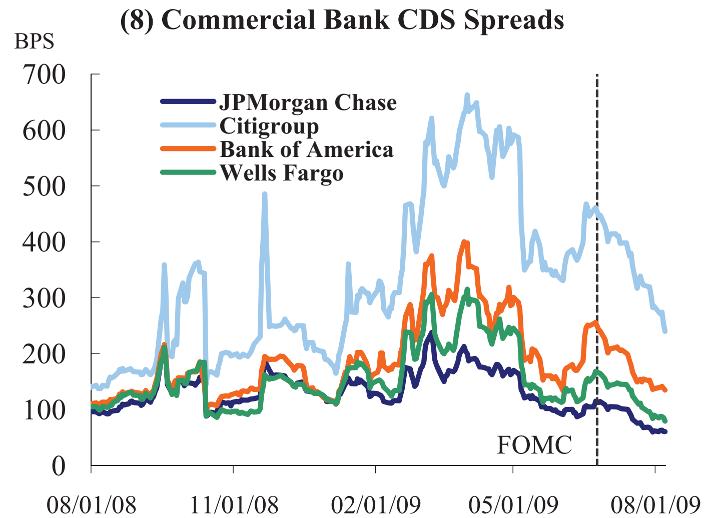
(6) USD and Emerging Market Equities



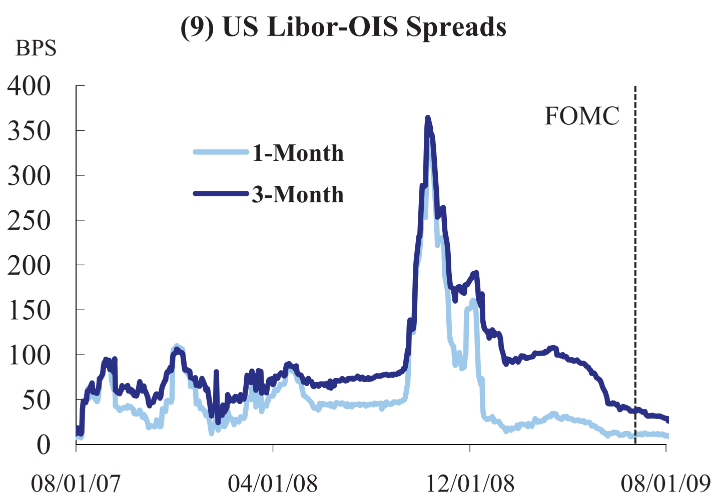
Source: Federal Reserve Board of Governors, Bloomberg



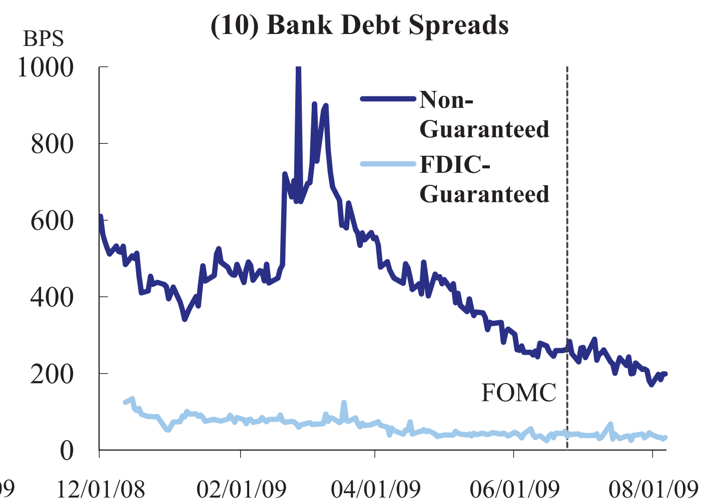
Source: Bloomberg



Source: Markit

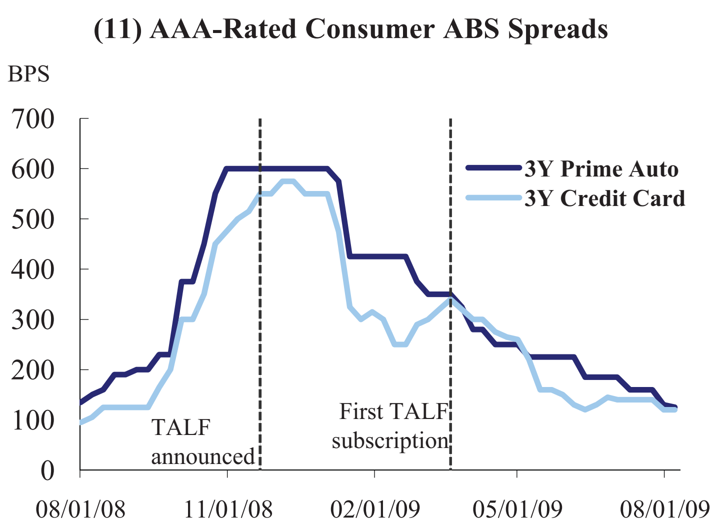


Source: Bloomberg

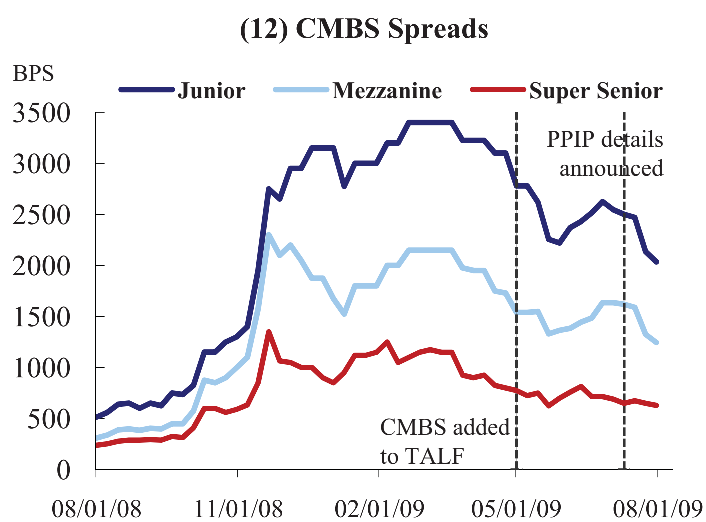


*Indices comprised of debt from Bank of America, Goldman Sachs, JPMC, Citigroup, and GE with maturities between 2010 and 2012. Spreads are to Treasuries of comparable maturity

Source: Bloomberg

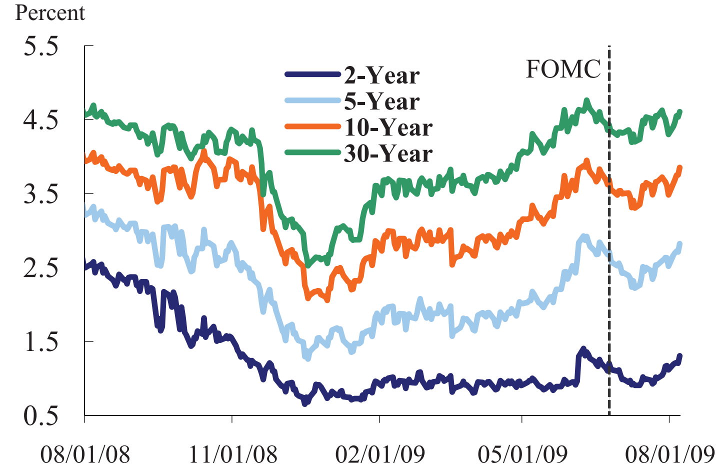


Source: JPMorgan Chase



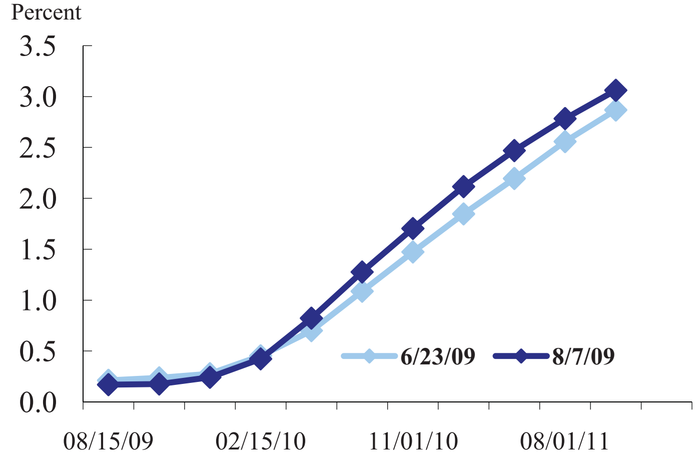
Source: JPMorgan Chase

(13) Treasury Yields



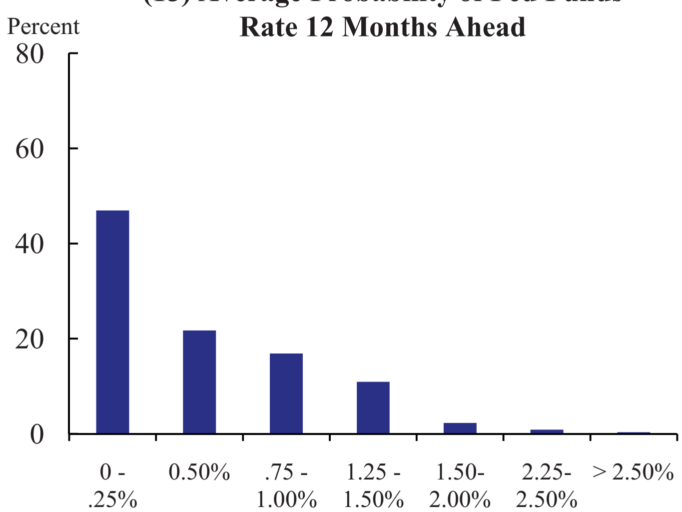
Source: Bloomberg

(14) Implied Federal Funds Rate



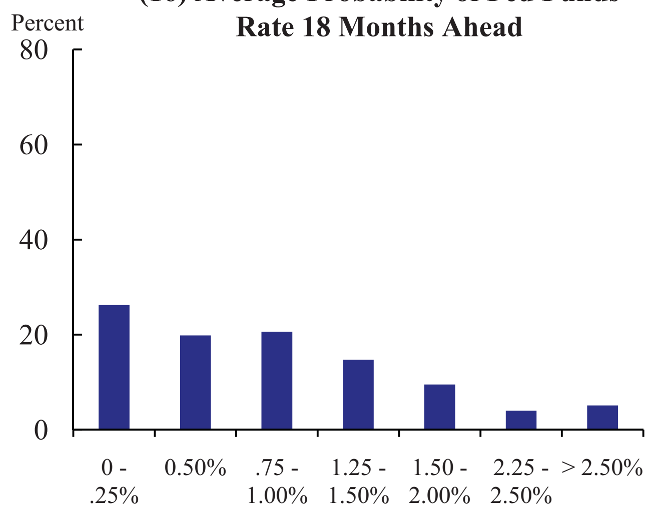
Source: Bloomberg

(15) Average Probability of Fed Funds Rate 12 Months Ahead



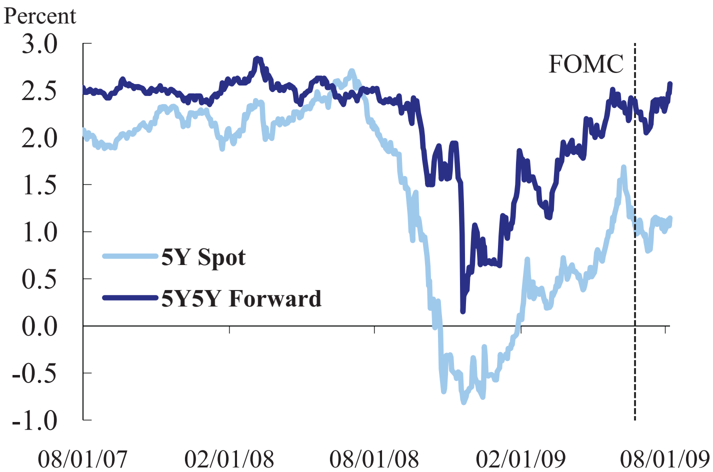
Source: Dealer Policy Survey

(16) Average Probability of Fed Funds Rate 18 Months Ahead



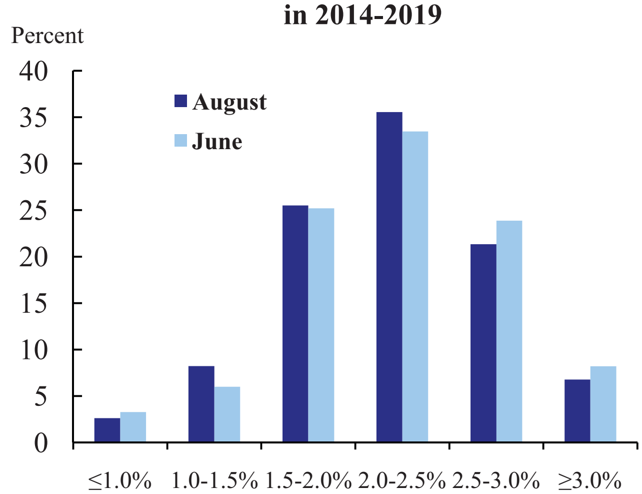
Source: Dealer Policy Survey

(17) Breakeven Inflation Rates



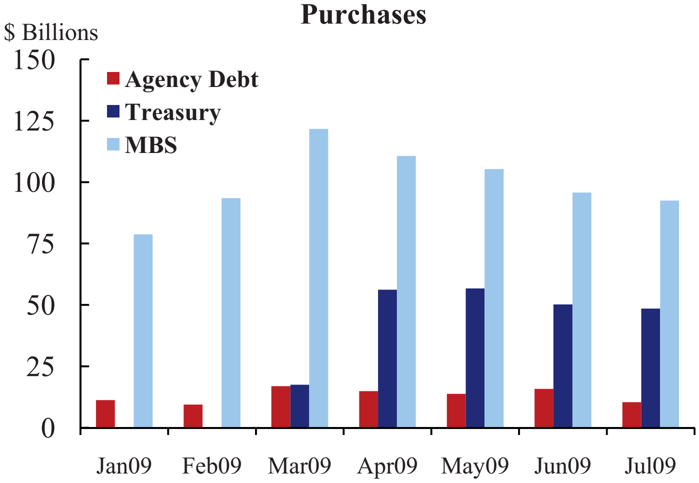
Source: Barclays

(18) Probability Distribution of CPI Inflation Rate in 2014-2019



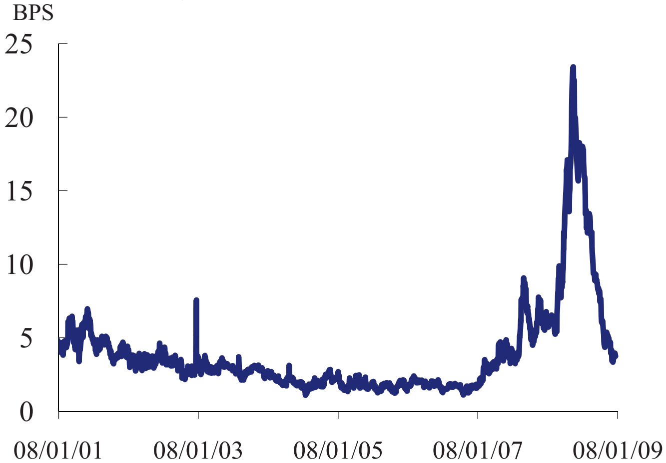
Source: Dealer Policy Survey

(19) Monthly Pace of Large-Scale Asset Purchases



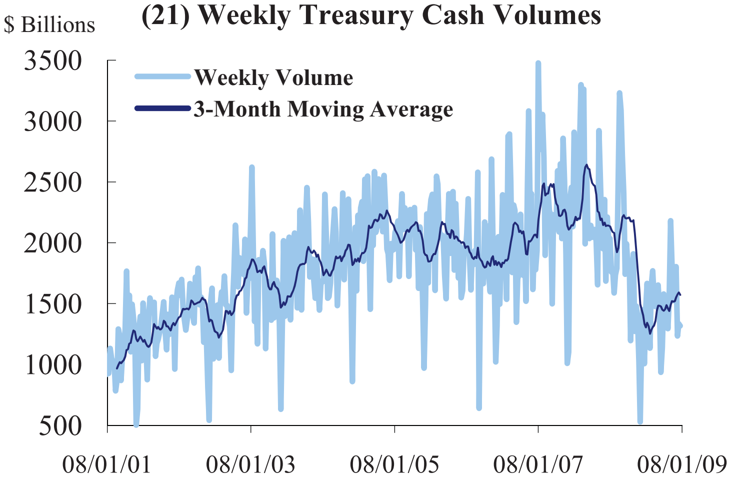
Source: Federal Reserve Bank of New York

(20) Dispersion of Treasury Yields (Fitting Error of Nominal Yield Curve)



*Calculated from securities with 2-10 year maturities
Source: Federal Reserve Bank of New York

(21) Weekly Treasury Cash Volumes



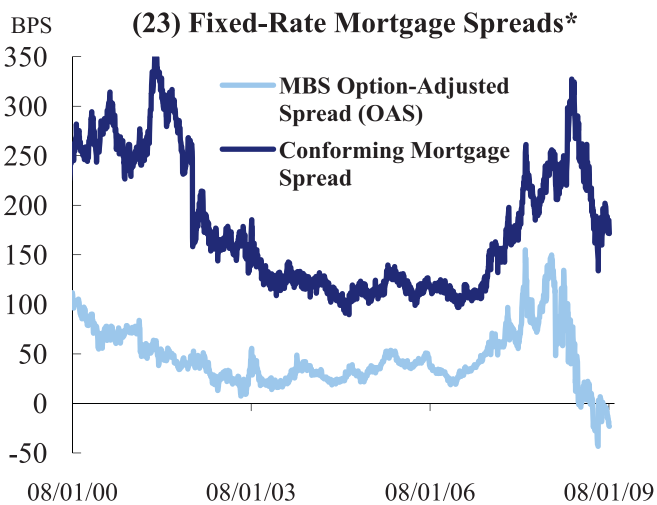
Source: FR2004

(22) Large-Scale Asset Purchases Program Size Relative to Market

	Total Size ($ bn)	% Current Stock	% Net Supply
Treasury	300	8%	39%
Agency Debt	200	36%	1000%
Mortgage	1250	28%	313%

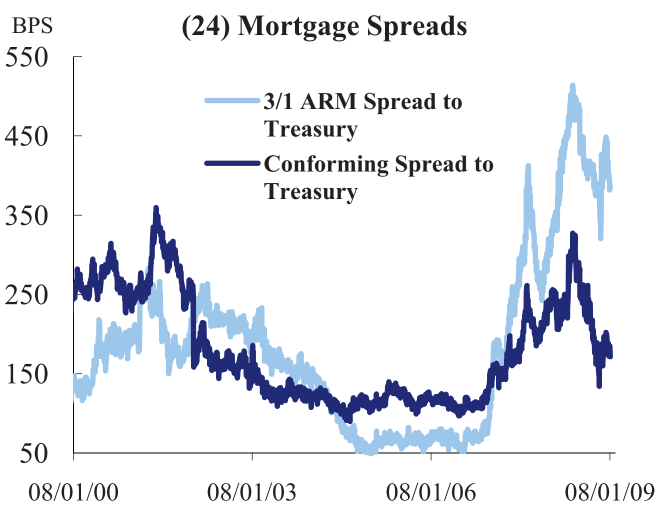
Source: Federal Reserve Bank of New York, JP Morgan Chase, Barclays Capital

(23) Fixed-Rate Mortgage Spreads*

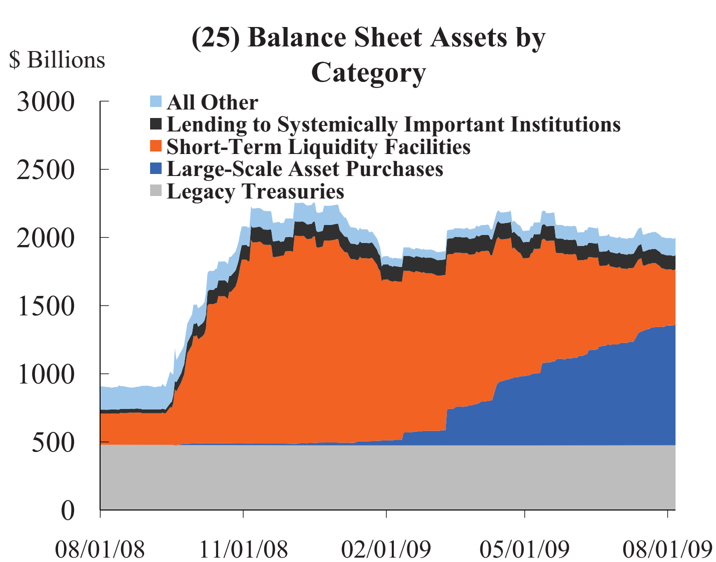


*Spreads calculated relative to blended 5- and 10-year Treasury yields
Source: Barclays Capital

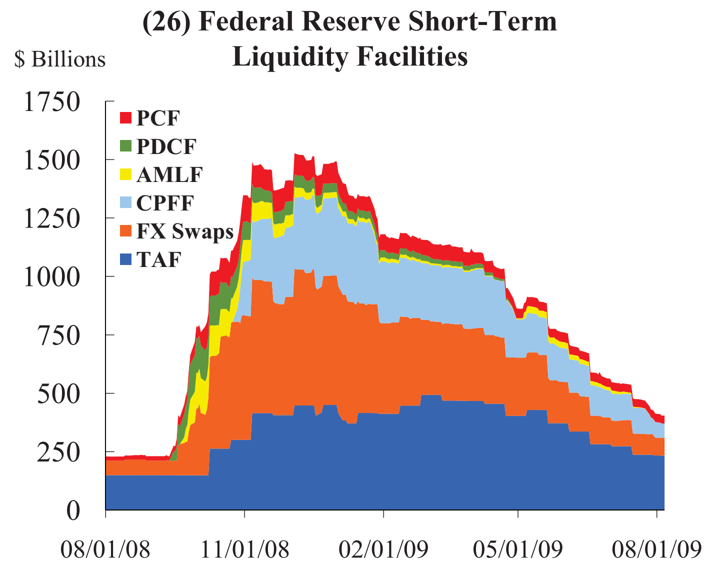
(24) Mortgage Spreads



*ARM spread is to 2-year Treasury; Conforming spread is to blended 5- and 10-year Treasury
Source: Barclays Capital, Bloomberg



Source: Federal Reserve Bank of New York



Source: Federal Reserve Bank of New York

(27) Balance Sheet Baseline Scenario Forecast

Assets ($ Billions)		**Projected**	
	7/31/09	**3/31/10**	**12/31/10**
Liquidity Facilities	412	125	21
Support to Specific Institutions	104	79	71
TALF	31	159	155
MBS and Agency Debt Purchases	650	1402	1240
Treasury Purchases	230	300	290
Other Assets	95	125	125
Legacy Treasury Holdings	475	475	475
TOTAL	1997	2665	2221

Source: Federal Reserve Bank of New York

Appendix 2: Materials used by Mr. Madigan

Class I FOMC – Restricted Controlled (FR)

Material for Briefing on Monetary Policy Alternatives

Brian Madigan
August 12, 2009

June FOMC Statement

Information received since the Federal Open Market Committee met in April suggests that the pace of economic contraction is slowing. Conditions in financial markets have generally improved in recent months. Household spending has shown further signs of stabilizing but remains constrained by ongoing job losses, lower housing wealth, and tight credit. Businesses are cutting back on fixed investment and staffing but appear to be making progress in bringing inventory stocks into better alignment with sales. Although economic activity is likely to remain weak for a time, the Committee continues to anticipate that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will contribute to a gradual resumption of sustainable economic growth in a context of price stability.

The prices of energy and other commodities have risen of late. However, substantial resource slack is likely to dampen cost pressures, and the Committee expects that inflation will remain subdued for some time.

In these circumstances, the Federal Reserve will employ all available tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period. As previously announced, to provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve will purchase a total of up to $1.25 trillion of agency mortgage-backed securities and up to $200 billion of agency debt by the end of the year. In addition, the Federal Reserve will buy up to $300 billion of Treasury securities by autumn. The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets. The Federal Reserve is monitoring the size and composition of its balance sheet and will make adjustments to its credit and liquidity programs as warranted.

August FOMC Statement – Alternative A

1. Information received since the Federal Open Market Committee met in **June** suggests that the pace of economic contraction **has abated significantly**. Conditions in financial markets have improved **somewhat further** in recent **weeks**. Household spending has **continued to show** signs of stabilizing but remains constrained by ongoing job losses, **sluggish income growth,** lower housing wealth, and tight credit. Businesses appear to **have made** progress in bringing inventory stocks into better alignment with sales but are **still** cutting back on fixed investment and staffing.
2. The prices of energy and other commodities have risen of late. However, substantial resource slack is likely to dampen cost pressures, and the Committee expects that inflation will remain subdued for some time.
3. **With the anticipated economic recovery likely to be weak initially and inflation expectations well-anchored, the Committee has decided to provide additional monetary stimulus by increasing its purchases of Treasury securities to $450 billion, up from the previously announced amount of as much as $300 billion.** To provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve **is in the process of purchasing** $1.25 trillion of agency mortgage-backed securities. **The Committee anticipates completing the full amounts of its purchases of Treasury and mortgage-backed securities by year-end. The Committee will also buy** up to $200 billion of agency debt by the end of this year. The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets. [The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period. | **The Committee anticipates that economic conditions are likely to warrant maintaining the 0 to ¼ percent target range for the federal funds rate at least through mid-2010**].

August FOMC Statement – Alternative B

1. Information received since the Federal Open Market Committee met in **June** suggests that economic **activity** is **leveling out**. Conditions in financial markets have improved **somewhat further** in recent **weeks**. Household spending has **continued to** show signs of stabilizing but remains constrained by ongoing job losses, **sluggish income growth,** lower housing wealth, and tight credit. Businesses are **still** cutting back on fixed investment and staffing but **have made** progress in bringing inventory stocks into better alignment with sales. Although economic activity is likely to remain weak for a time, the Committee continues to anticipate that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will contribute to a gradual resumption of sustainable economic growth in the context of price stability.
2. The prices of energy and other commodities have risen of late. However, substantial resource slack is likely to dampen cost pressures, and the Committee expects that inflation will remain subdued for some time.
3. In these circumstances, the Federal Reserve will employ all available tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period. As previously announced, to provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve will purchase a total of up to $1.25 trillion of agency mortgage-backed securities and up to $200 billion of agency debt by the end of the year. In addition, the Federal Reserve **is in the process of buying** $300 billion of Treasury securities. **To promote a smooth transition in markets as its purchases of Treasury securities come to an end, the Committee has decided to gradually slow the pace of these transactions and expects them to be completed by the end of October.** The Committee will continue to evaluate the timing and overall amounts of its purchases of **agency debt and mortgage-backed** securities in light of the evolving economic outlook and conditions in financial markets. The Federal Reserve is monitoring the size and composition of its balance sheet and will make adjustments to its credit and liquidity programs as warranted.

August FOMC Statement – Alternative B'

1. Information received since the Federal Open Market Committee met in **June** suggests that economic **activity** is **leveling out**. Conditions in financial markets have improved **somewhat further** in recent **weeks**. Household spending has **continued to** show signs of stabilizing but remains constrained by ongoing job losses, **sluggish income growth,** lower housing wealth, and tight credit. Businesses are **still** cutting back on fixed investment and staffing but **have made** progress in bringing inventory stocks into better alignment with sales. Although economic activity is likely to remain weak for a time, the Committee continues to anticipate that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will contribute to a gradual resumption of sustainable economic growth in the context of price stability.
2. The prices of energy and other commodities have risen of late. However, substantial resource slack is likely to dampen cost pressures, and the Committee expects that inflation will remain subdued for some time.
3. In these circumstances, the Federal Reserve will employ all available tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period. As previously announced, to provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve will purchase a total of up to $1.25 trillion of agency mortgage-backed securities and up to $200 billion of agency debt by the end of the year. In addition, the Federal Reserve **is in the process of buying** $300 billion of Treasury securities. **To promote a smooth transition in markets as the current program of purchases of Treasury securities comes to an end, the Committee has decided to gradually slow the pace of these transactions and expects them to be completed by the end of October. The Committee is prepared to consider resuming its purchases of Treasury securities** in light of the evolving economic outlook and conditions in financial markets**, and it** will continue to evaluate the timing and overall amounts of its purchases of **agency debt and mortgage-backed** securities. The Federal Reserve is monitoring the size and composition of its balance sheet and will make adjustments to its credit and liquidity programs as warranted.

August FOMC Statement – Alternative B (revised)

1. Information received since the Federal Open Market Committee met in **June** suggests that economic **activity is leveling out**. Conditions in financial markets have improved **further** in recent **weeks**. Household spending has **continued to** show signs of stabilizing but remains constrained by ongoing job losses, **sluggish income growth,** lower housing wealth, and tight credit. Businesses are **still** cutting back on fixed investment and staffing but **are** making progress in bringing inventory stocks into better alignment with sales. Although economic activity is likely to remain weak for a time, the Committee continues to anticipate that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will contribute to a gradual resumption of sustainable economic growth in the context of price stability.
2. The prices of energy and other commodities have risen of late. However, substantial resource slack is likely to dampen cost pressures, and the Committee expects that inflation will remain subdued for some time.
3. In these circumstances, the Federal Reserve will employ all available tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period. As previously announced, to provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve will purchase a total of up to $1.25 trillion of agency mortgage-backed securities and up to $200 billion of agency debt by the end of the year. In addition, the Federal Reserve **is in the process of buying** $300 billion of Treasury securities. **To promote a smooth transition in markets as these purchases of Treasury securities are completed, the Committee has decided to gradually slow the pace of these transactions and anticipates that the full amount will be purchased by the end of October.** The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets. The Federal Reserve is monitoring the size and composition of its balance sheet and will make adjustments to its credit and liquidity programs as warranted.

August FOMC Statement – Alternative C

1. Information received since the Federal Open Market Committee met in **June** suggests that economic **activity is leveling out and that downside risks are diminishing**. Household spending has **continued to show** signs of stabilizing but remains constrained by ongoing job losses, **sluggish income growth,** lower housing wealth, and tight credit. Businesses are **still** cutting back on fixed investment and staffing but **have made** progress in bringing inventory stocks into better alignment with sales. **Meanwhile,** conditions in financial markets have improved **further** in recent **weeks**. Although economic activity is likely to remain weak for a time, the Committee anticipates that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will continue to contribute to a gradual resumption of sustainable economic growth in a context of price stability.
2. The prices of energy and other commodities have risen of late. However, substantial resource slack is likely to dampen cost pressures, and the Committee expects that inflation will remain subdued for some time.
3. **In view of the improved economic outlook, the Committee has judged that some reduction in overall monetary stimulus is appropriate. The Committee now expects that its purchases of agency mortgage-backed securities (MBS) and agency debt will cumulate to about $1 trillion and about $150 billion, respectively, somewhat less than the previously announced maximum amounts.** The Federal Reserve **is nearing completion of its purchase of roughly** $300 billion of Treasury securities. **To promote a smooth transition in markets as its purchases of Treasury securities, agency debt, and agency MBS come to an end, the Committee has decided to gradually slow the pace of these transactions. Consistent with these adjustments, the Committee now expects that its purchases of Treasury securities will be completed by the end of October, and it continues to anticipate that its purchases of agency debt and MBS will be completed by the end of the year.** The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets. The Federal Reserve is carefully monitoring the size and composition of its balance sheet and will make adjustments to its credit and liquidity programs as warranted. The Committee **now** anticipates that economic conditions are likely to warrant **maintenance of the current 0 to ¼ percent range for** the federal funds rate **at least through the end of this year**.

Table 1: Overview of Alternative Language for the August 11-12, 2009 FOMC Announcement

<table>
<tr><th rowspan="2"></th><th rowspan="2">June FOMC</th><th colspan="5">August Alternatives</th></tr>
<tr><th>A</th><th colspan="3">B / B' / B(revised)</th><th>C</th></tr>
<tr><td colspan="7">Forward Guidance on Funds Rate Path</td></tr>
<tr><td></td><td>“for an extended period”</td><td>same as in June or “at least through mid-2010”</td><td colspan="3">“for an extended period”</td><td>“at least through the end of this year”</td></tr>
<tr><td colspan="7">Treasury Securities Purchases</td></tr>
<tr><td>Total Amount</td><td>up to $300 billion</td><td>“full amount” of $450 billion</td><td colspan="3">$300 billion</td><td>“roughly $300 billion”</td></tr>
<tr><td>Pace</td><td>-----</td><td>-----</td><td colspan="3">pace will “gradually slow”</td><td>pace will “gradually slow”</td></tr>
<tr><td>Completion</td><td>by autumn</td><td>by year-end</td><td colspan="3">by the end of October</td><td>by the end of October</td></tr>
<tr><td colspan="7">Agency MBS Purchases</td></tr>
<tr><td>Total Amount</td><td>up to $1.25 trillion</td><td>“full amount” of $1.25 trillion</td><td colspan="3">up to $1.25 trillion</td><td>“will cumulate to about $1 trillion”</td></tr>
<tr><td>Pace</td><td>-----</td><td>-----</td><td colspan="3">-----</td><td>pace will “gradually slow”</td></tr>
<tr><td>Completion</td><td>by year-end</td><td>by year-end</td><td colspan="3">by year-end</td><td>by year-end</td></tr>
<tr><td colspan="7">Agency Debt Purchases</td></tr>
<tr><td>Total Amount</td><td>up to $200 billion</td><td>up to $200 billion</td><td colspan="3">up to $200 billion</td><td>“will cumulate to… about $150 billion”</td></tr>
<tr><td>Pace</td><td>-----</td><td>-----</td><td colspan="3">-----</td><td>pace will “gradually slow”</td></tr>
<tr><td>Completion</td><td>by year-end</td><td>by year-end</td><td colspan="3">by year-end</td><td>by year-end</td></tr>
<tr><td colspan="7">Evaluation of LSAP Timing and Overall Amounts</td></tr>
<tr><td></td><td>adjustments to all LSAPs will continue to be evaluated</td><td>adjustments to all LSAPs will continue to be evaluated</td><td>adjustments to agency debt and agency MBS will continue to be evaluated</td><td>“prepared to consider resuming” Treasury purchases; adjustments to agency debt and agency MBS will continue to be evaluated</td><td>adjustments to all LSAPs will continue to be evaluated</td><td>adjustments to all LSAPs will continue to be evaluated</td></tr>
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