Appendix 1: Materials used by Messrs. Duca, Haughwout, and Cooper

Class II FOMC – Restricted (FR)

Material for

FOMC Briefing on Lending and Leverage

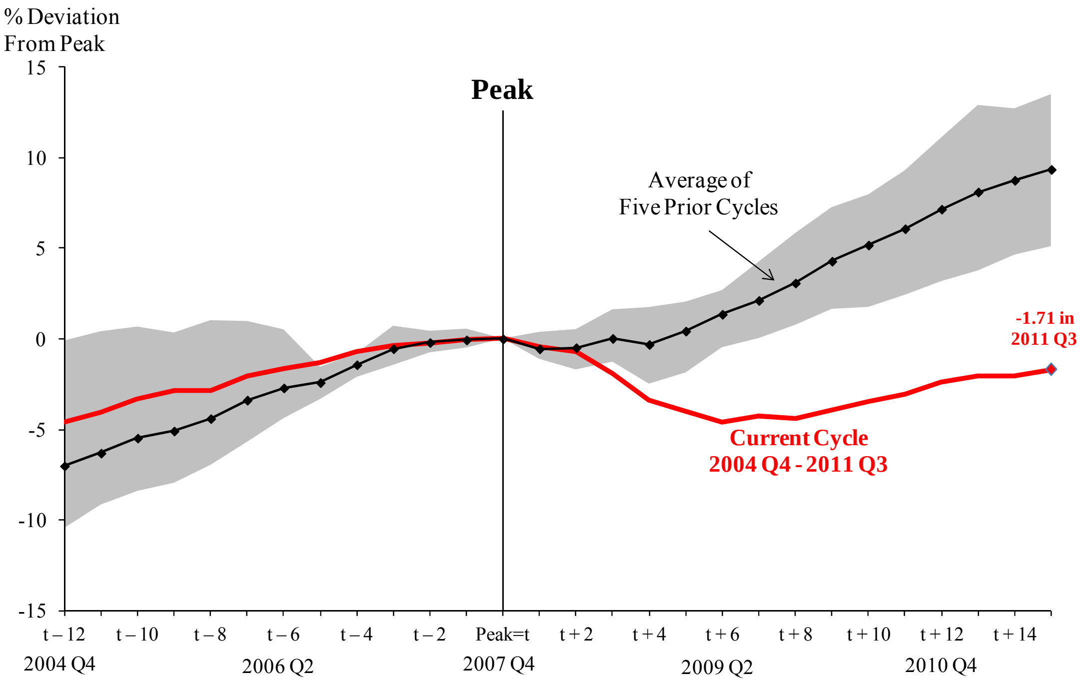
John Duca, Andrew Haughwout, and Daniel Cooper

January 24, 2012

Debt, Leverage and the Recovery of Consumption: Time Series Evidence

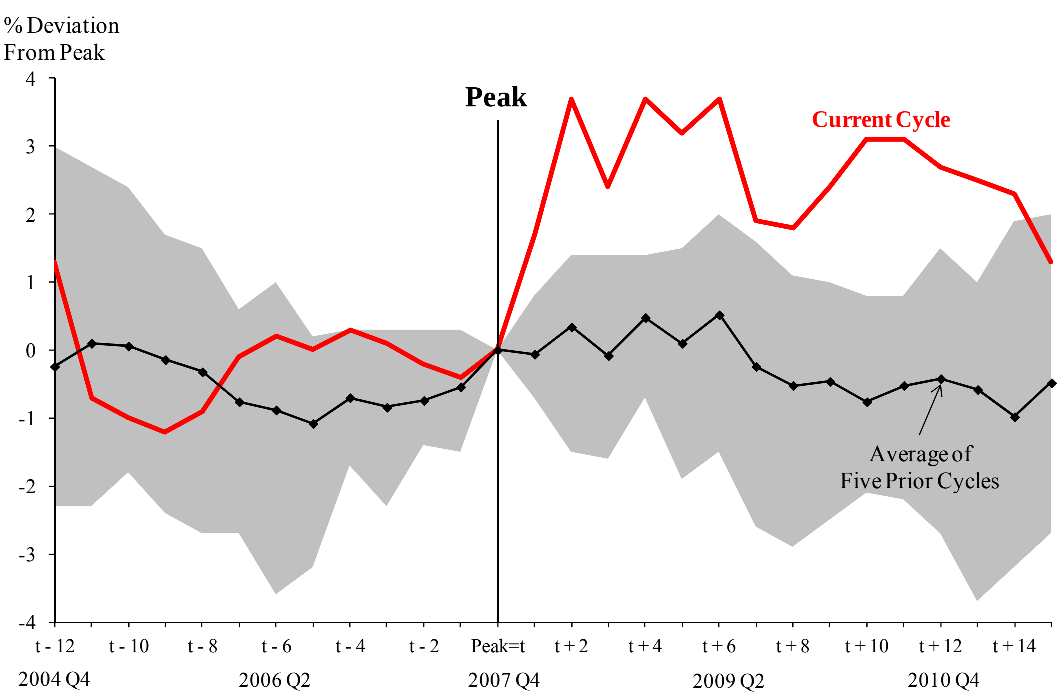
John V. Duca and Anthony Murphy
Federal Reserve Bank of Dallas
Exhibits by J.B. Cooke and David Luttrell

Exhibit 1: Real Per Capita Consumption Weak in Current Cycle



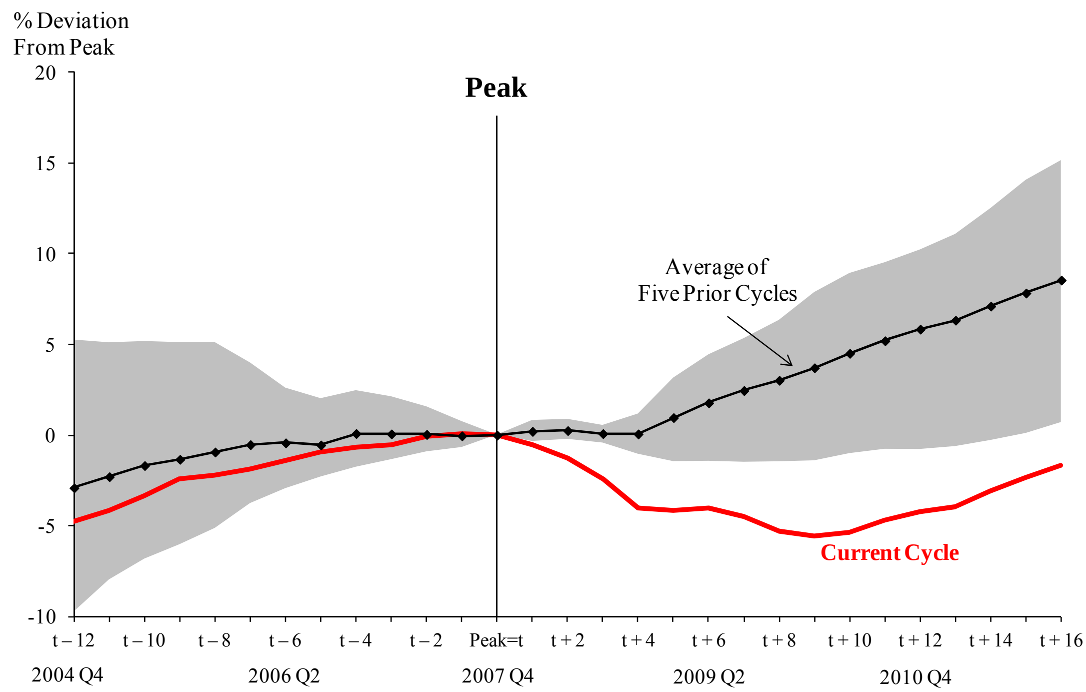
Notes: The grey area indicates the range of the last five major recessions (1970, 1974, 1981-82, 1990, and 2001), excluding the very short 1980 recession.

Exhibit 2: Personal Saving Rate Rose in Recent Cycle, Before Ebbing



Notes: The grey area indicates the range of the last five recessions (1970, 1974, 1981-82, 1990, and 2001, excluding the very short 1980 recession).

Exhibit 3: Consumer Credit Conditions Weak, But Recently Improving



Notes: The grey area indicates the range of the last five recessions (1970, 1974, 1981-82, 1990, and 2001, excluding the very short 1980 recession).

Exhibit 4: Trends in Saving Reflect More Than Movements in Household Net Wealth

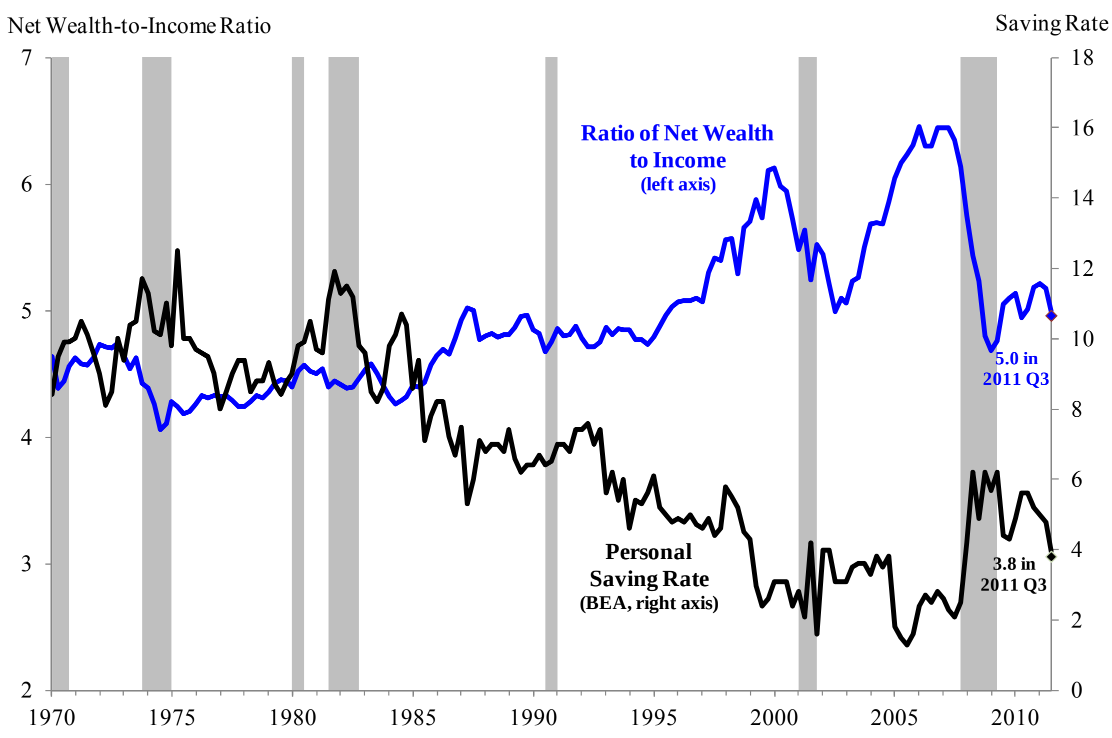


Exhibit 5: Components of Household Wealth

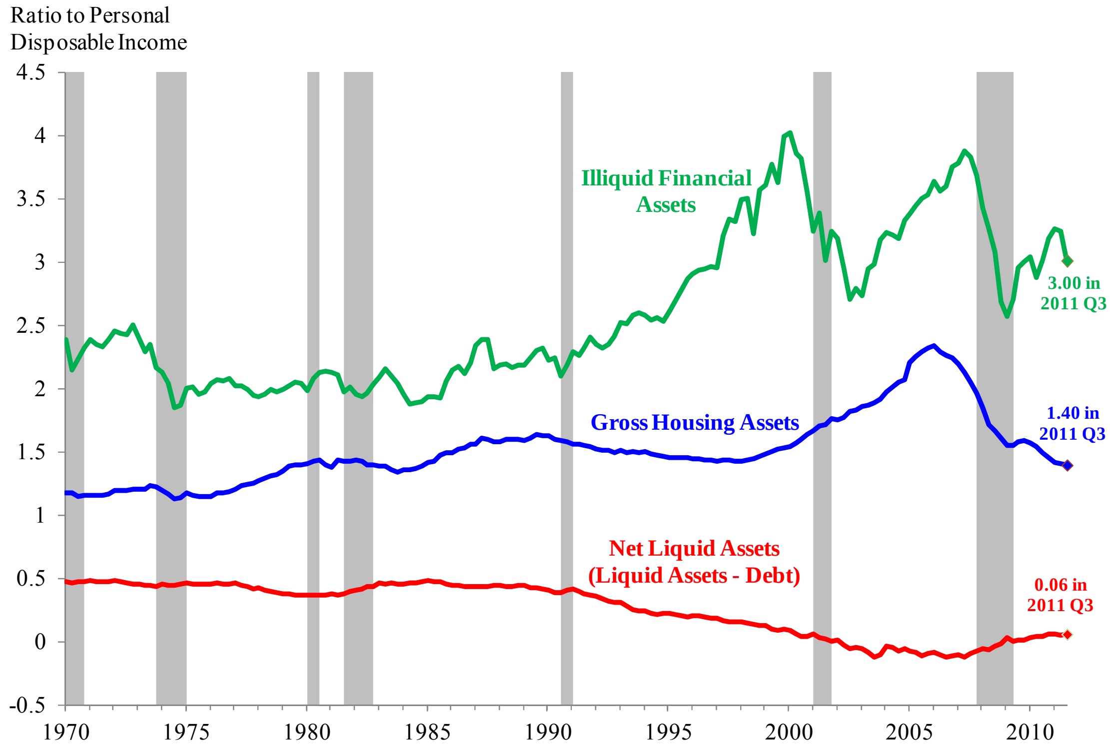
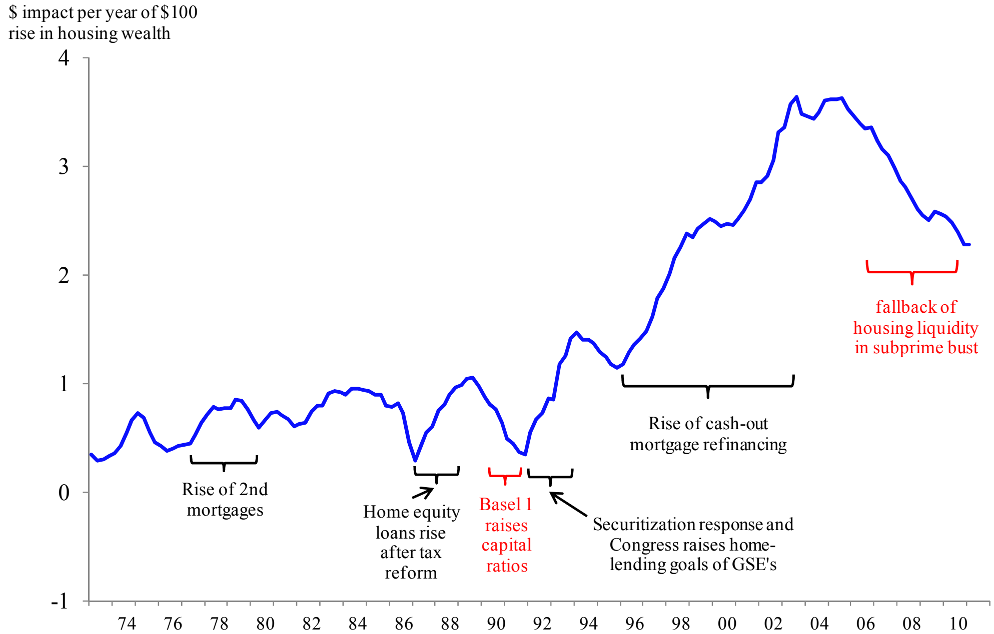


Exhibit 6: Sensitivities of Consumption to Wealth

Estimated $ Change in Annual Total Consumption
Per $100 Increase In Wealth
(Marginal Propensity to Consume, mpc)

Net Liquid Assets	Illiquid Financial Assets	Gross Housing Assets
$13.4	$2.0	$3.6 at peak, $2.1 in 2011Q1

Exhibit 7: Sensitivity of Consumption to Housing Wealth Triples in Late-1990s, Retreats During the Subprime Bust



Source: "How Financial Innovations and Accelerators Drive U.S. Consumption Booms and Busts," J. Duca, J. Muellbauer, and A. Murphy, Dec. 2011.

Exhibit 8: Consumer Credit Conditions Index Rises Sharply from 1970 to Mid-1990s, and Swings Since the Mid-2000s

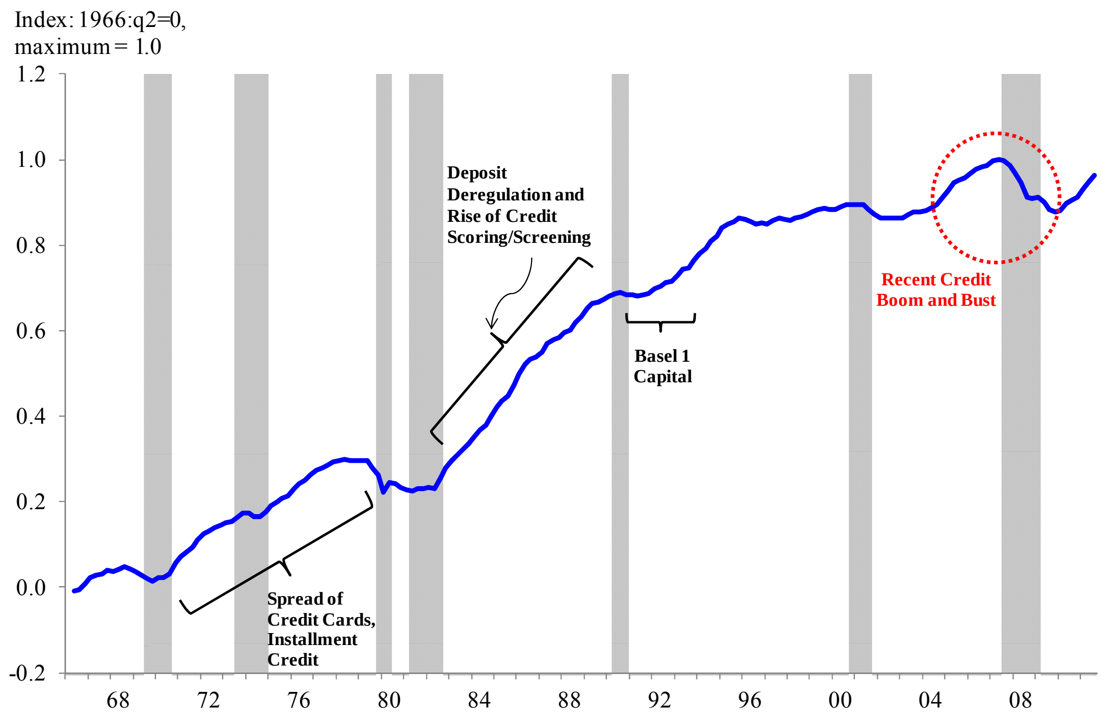


Exhibit 9: Changes in Ratio of Consumption-to-Income Tracked Well by Combined Credit and Wealth Effects

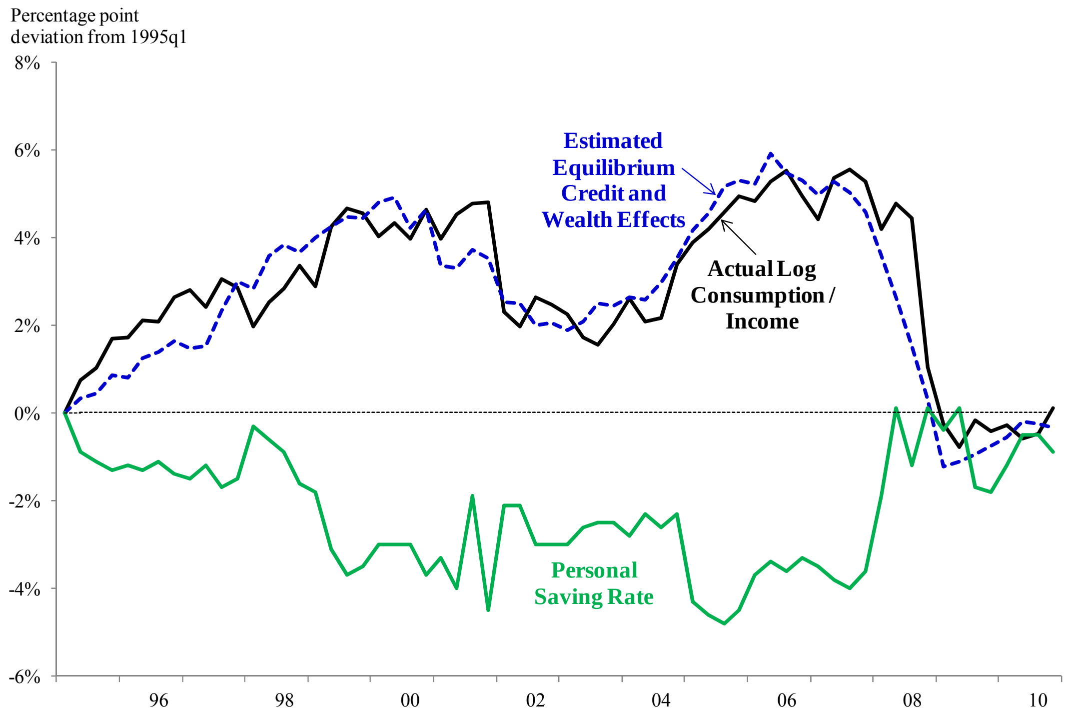


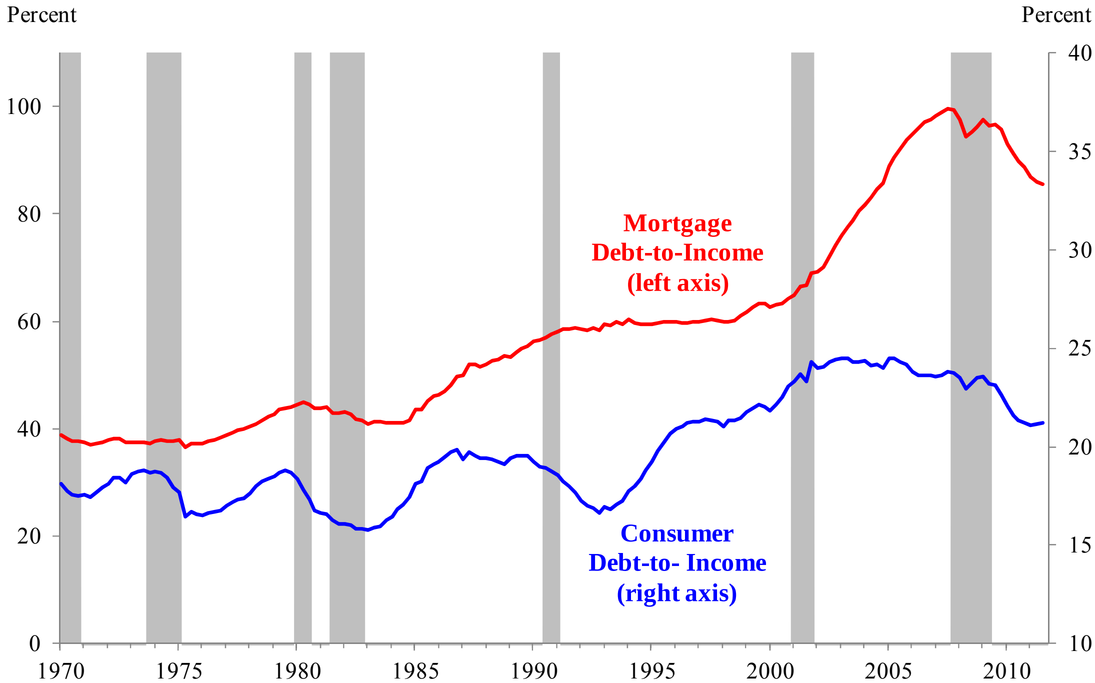
Exhibit 10: Impact of Credit Conditions and Wealth on the Consumption-to-Income Ratio

Estimated % Point Long-Run Effects on Consumption-Income Ratio

Period	Change in Log Actual Consumption to-Income Ratio	Combined Estimated Equilibrium Credit and Wealth Effects	Contributions to Estimated Equilibrium Effect			
			Consumer Debt + Credit Conditions Index	Illiquid Financial Assets	Housing Assets & Mortgage Debt	Liquid Assets
Housing and Stock Bubbles 1995q1-2006q3	5.5	5.5	1.0	2.9	1.0	0.6
Housing and Financial Crisis 2006q3-2009q2	-6.3	-6.6	-0.7	-2.7	-5.2	2.1
Anemic Recovery Period 2009q2-2010q4	0.9	0.8	0.4	0.8	0.8	-1.3
Recent Quarters 2011q1-2011q3	1.2	1.0	0.5	0.8	-0.2	-0.1

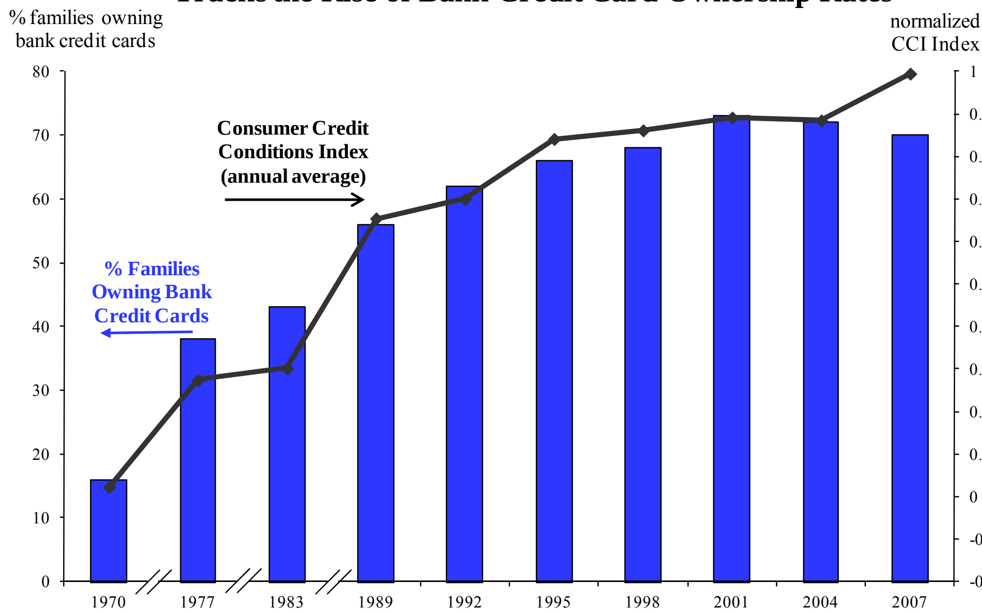
Note: The estimated equilibrium Consumption/Income is proportional to 0.126 x Credit Conditions Index + 0.020 x Illiquid Assets/Income + 0.134 x (Liquid Assets – Consumer Debt – Mortgage Debt)/Income + Housing MPC x Housing Assets/Income. The housing MPC (marginal propensity to consumer) is time-varying.

Exhibit 11: Consumer Debt-to-Income Ratio Stabilizes, While Mortgage Ratio Continues Declining, Though Less Rapidly of Late



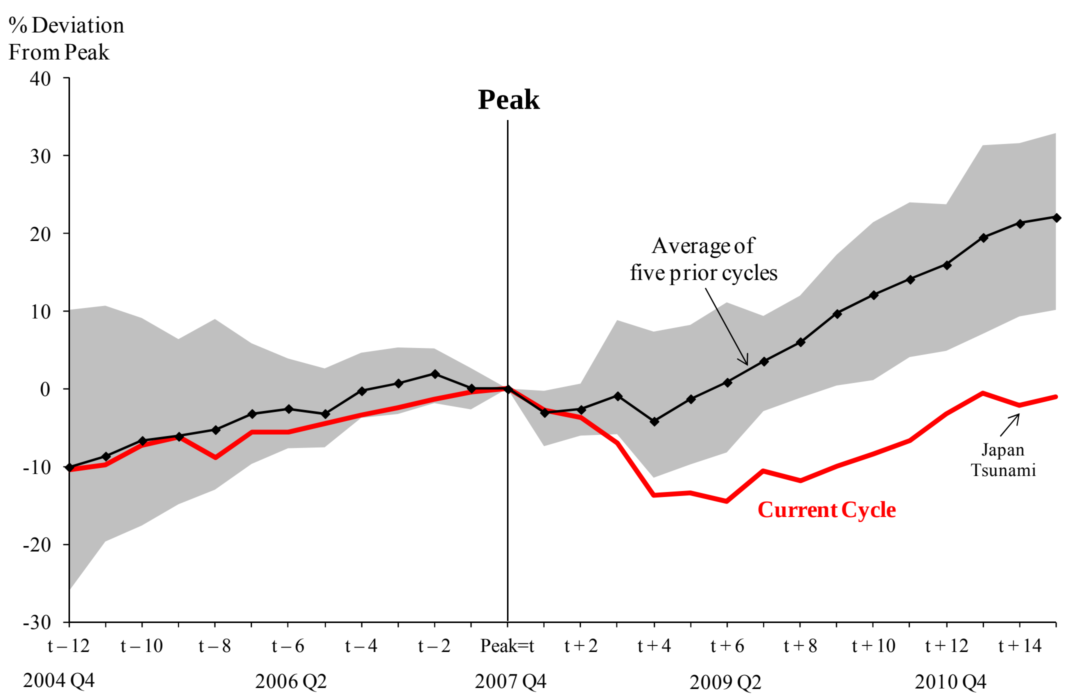
Supplementary Exhibits

Supplementary Exhibit 1: The Consumer Credit Conditions Index Tracks the Rise of Bank Credit Card Ownership Rates



Notes: All credit cards generally excludes cards limited to only one particular retailer. Bank cards are those on which households can carry-over balances. Sources: Durkin (2000), Bertaut and Haliassios (2006) for 1992 data, Bucks, et al., (2007, 2009) for 2001-07, and authors' calculations using Bucks, et al. (2009) figures for bank card ownership in 2004 and 2007.

Supplementary Exhibit 2: Subpar Recovery in Consumer Durables



Notes: The grey area indicates the range of the five prior recessions (1970, 1974, 1981-82, 1990, and 2001, excluding the very short 1980 recession).

Supplementary Exhibit 3: Similar Sensitivities of Consumption to Wealth in the U.S., UK and Australia

Estimated $ Change in Annual Total Consumption Per $100 Increase In Wealth
(Marginal Propensity to Consume, mpc)

	Net Liquid Assets	Illiquid Financial Assets	Gross Housing Assets
U.S.	13.4	2.0	Max. of 3.6
UK	11.4	2.2	Max. of 4.3
Australia	15.9	2.2	Max. of 4.9

Notes: U.S. estimates from Duca, Muellbauer and Murphy (2011). UK estimates from Aron, Duca, Muellbauer, Murphy and Murata (2011). Estimates for Australia from Muellbauer and Williams (2011).

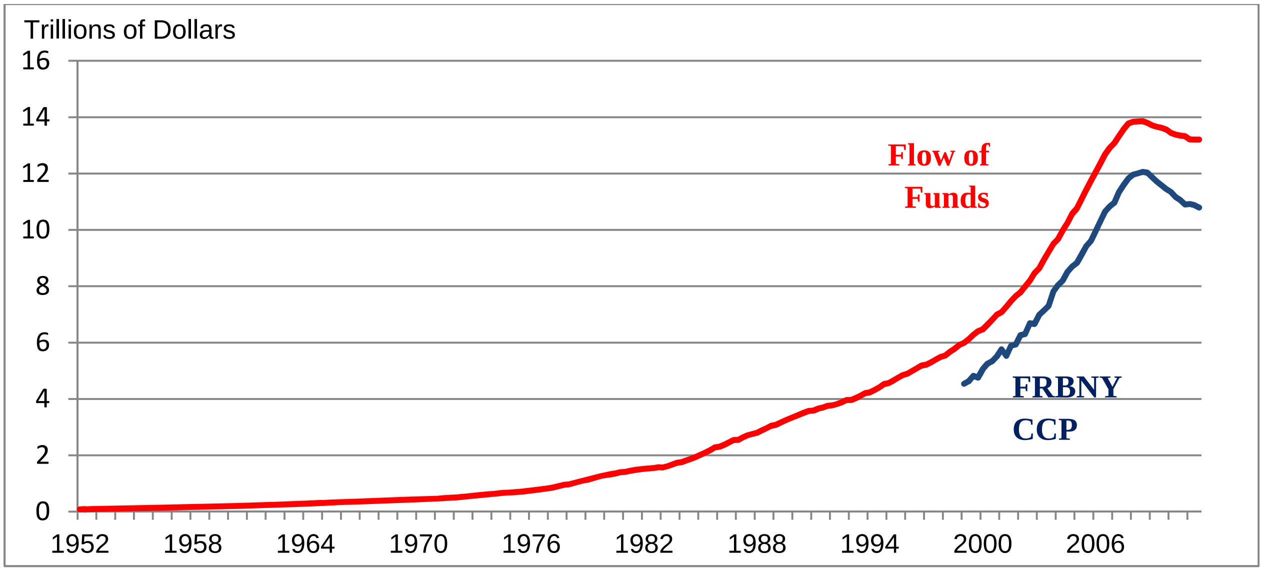
Recent Developments in Household Debt

Andrew Haughwout
Federal Reserve Bank of New York

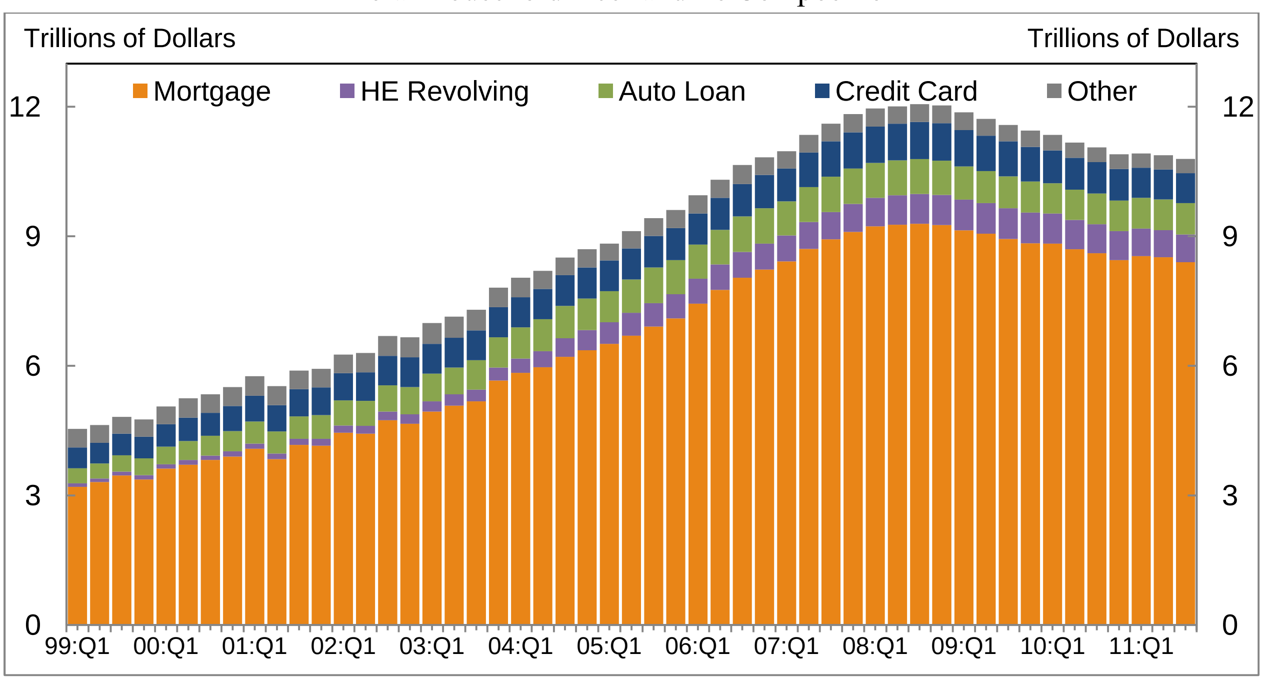
With contributions from
Donghoon Lee, Jonathan McCarthy, Joseph Tracy, Wilbert van der Klaauw and David Yun

EXHIBIT 1

Total Household Debt: Flow of Funds Accounts and FRBNY Consumer Credit Panel



Total Household Debt and Its Composition

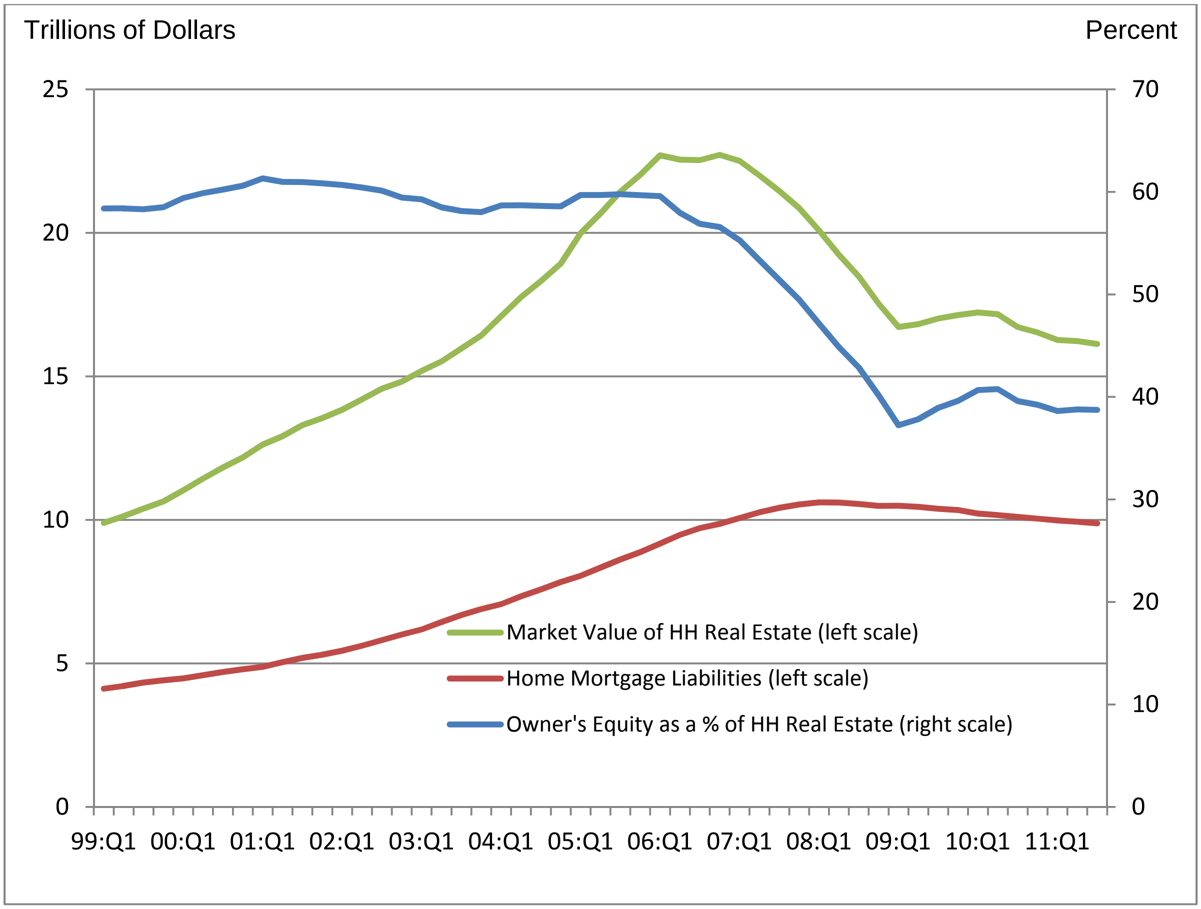


Sources: Board of Governors of the Federal Reserve System, Flow of Funds accounts; FRBNY Consumer Credit Panel.

Notes: Shading represents NBER recessions. Flow of Funds measure includes non-profit sector; FRBNY CCP excludes student loans.

EXHIBIT 2

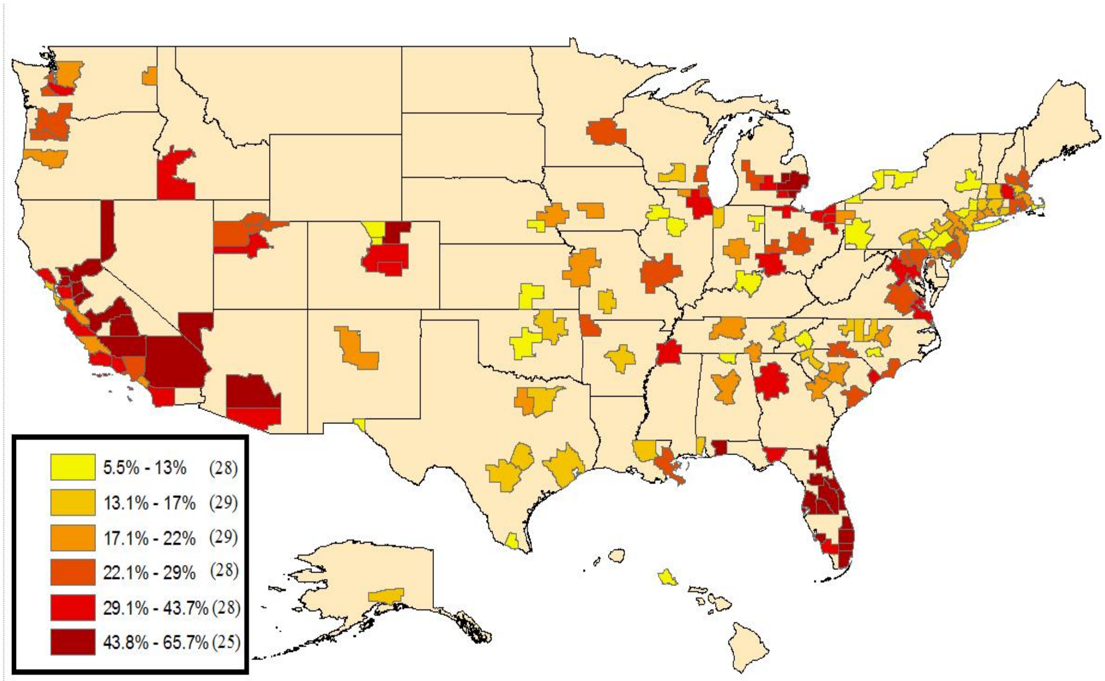
Housing Assets, Mortgage Debt, and Owners' Equity Share



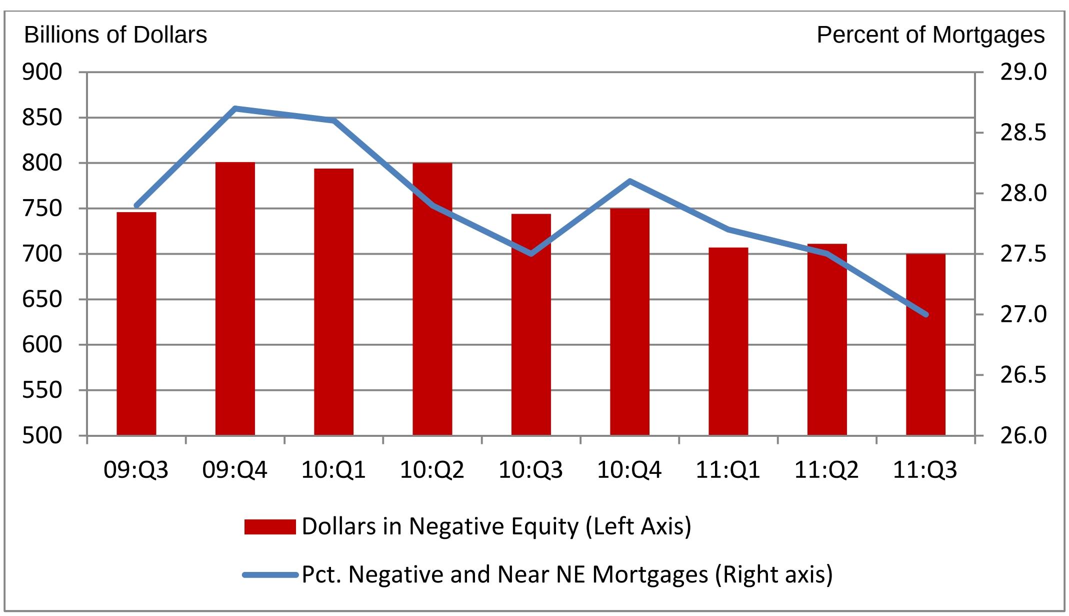
Source: Board of Governors of the Federal Reserve System, Flow of Funds accounts.

EXHIBIT 3

Combined Negative and Near-negative Equity Rates in 168 Metro Areas



Negative Equity Debt Overhang

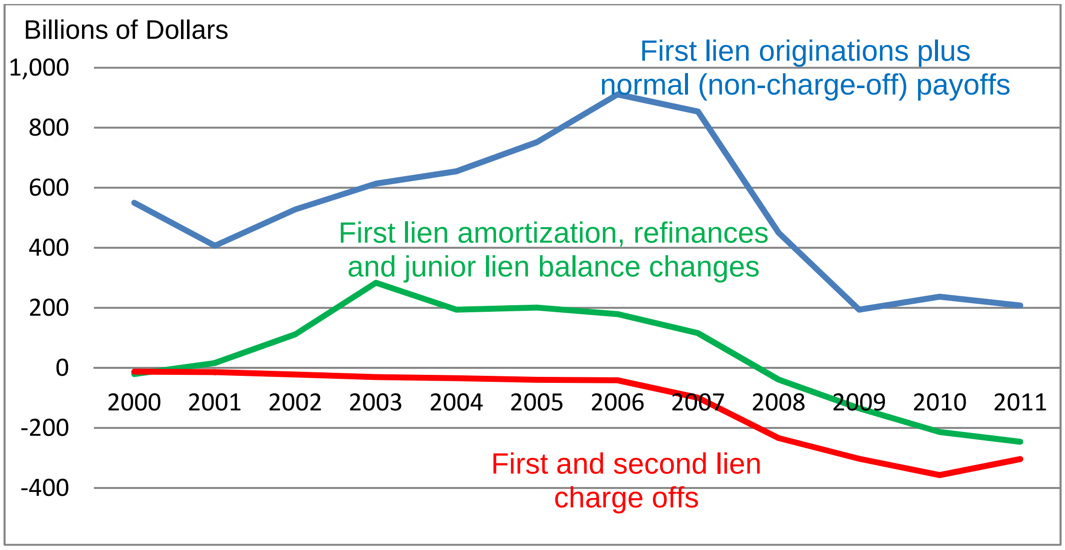


Source: CoreLogic.

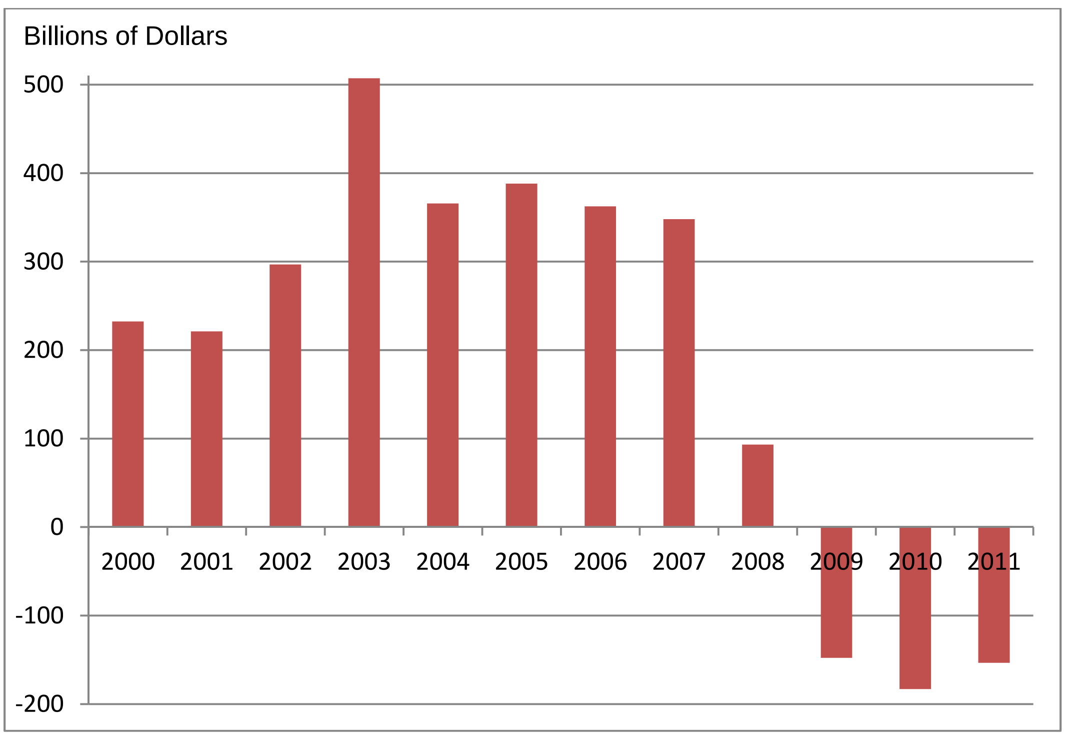
Note: The 2011:Q1 reduction in the aggregate negative equity amount partially reflects a revision to CoreLogic's methodology.

EXHIBIT 4

Sources of Change in Aggregate Mortgage Balances



Annual Cash Flows from All Forms of Household Debt

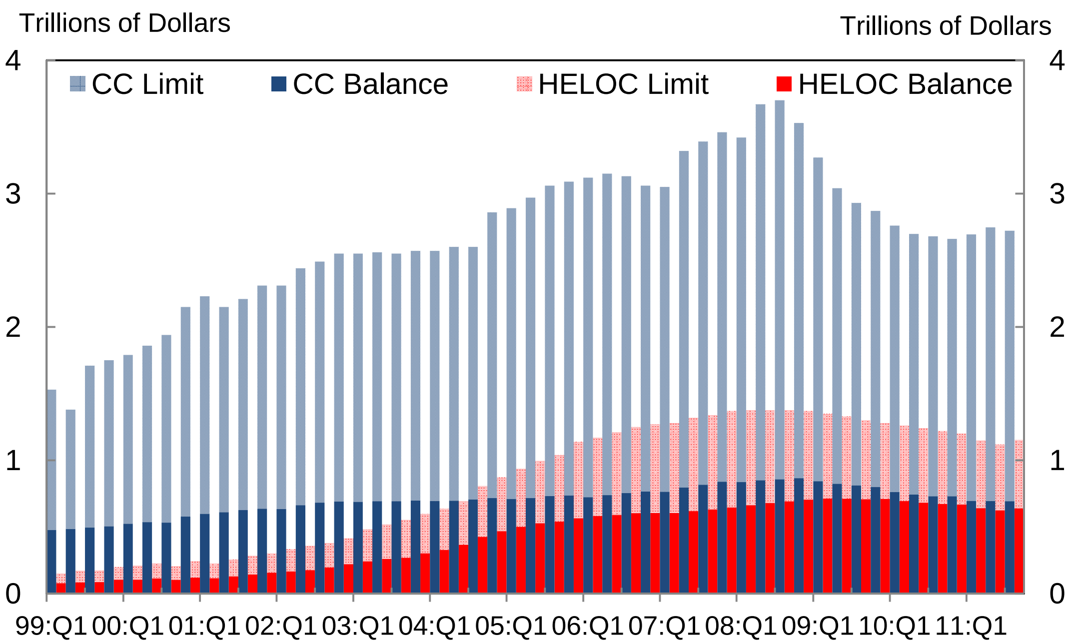


Source: FRBNY Consumer Credit Panel, annual data.

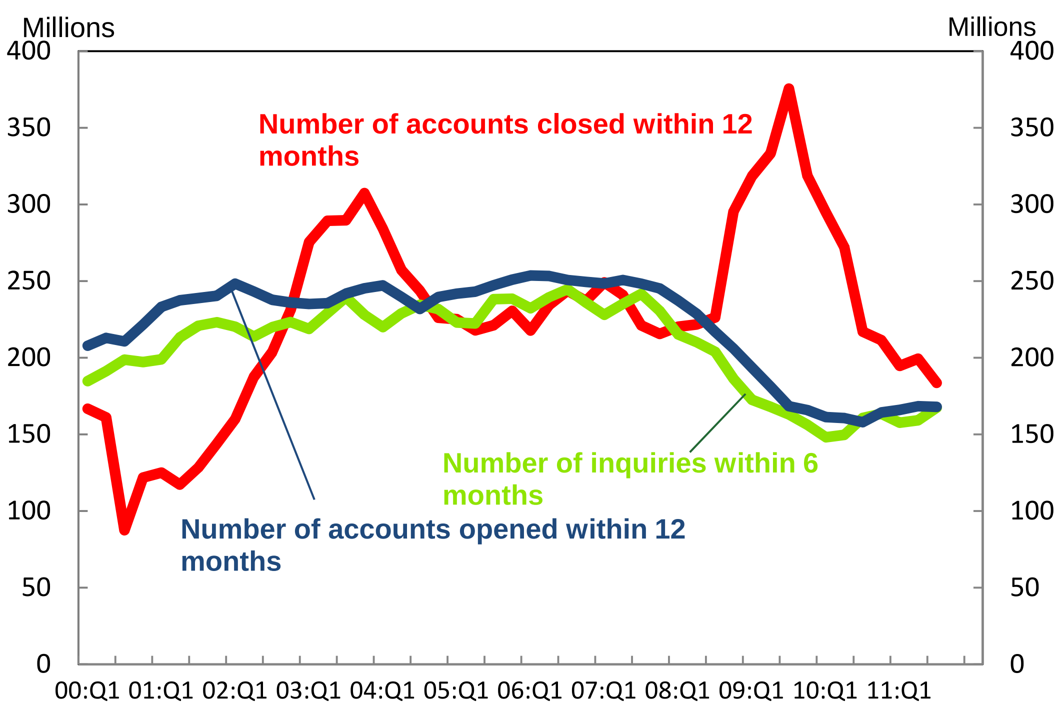
Note: The plot for 2011 is annualized from data through the second quarter.

Exhibit 5

Credit Limit and Balance: Credit Cards and HELOC



Total Number of New and Closed Accounts and Inquiries

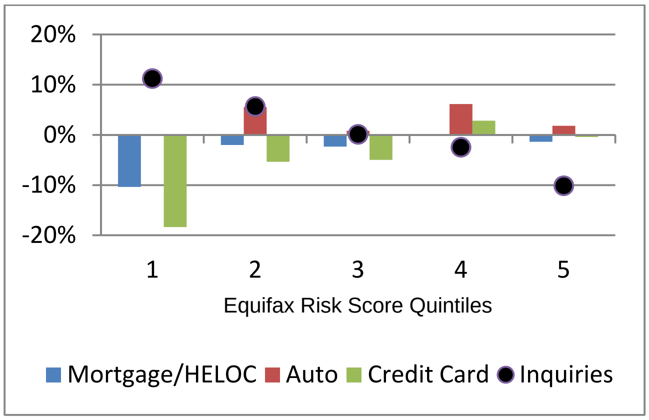


Source: FRBNY Consumer Credit Panel.

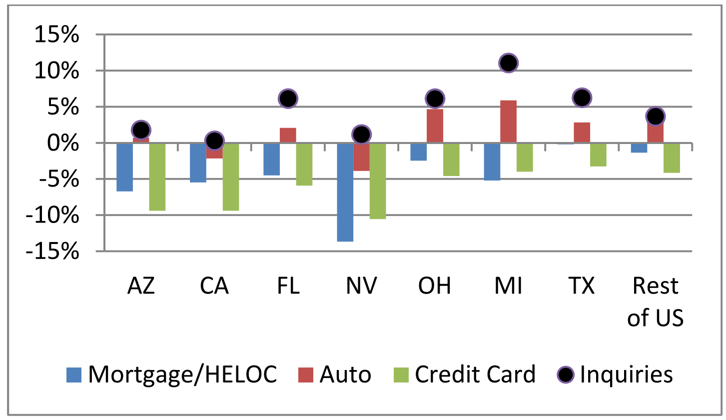
Exhibit 6

Change in Debt 2010Q3-2011Q3, by Borrower Characteristics

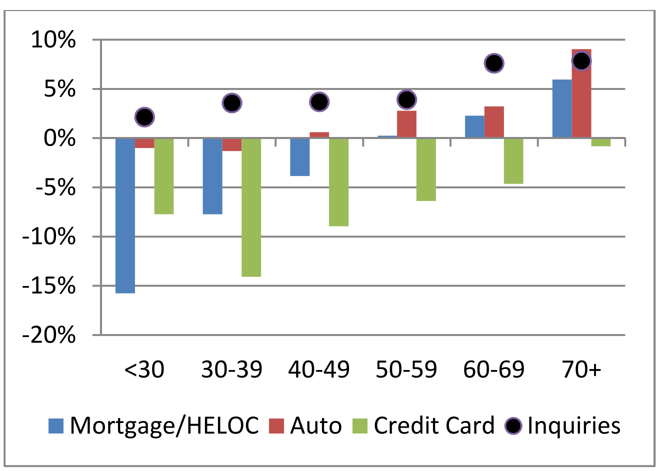
By Credit Score Quintile



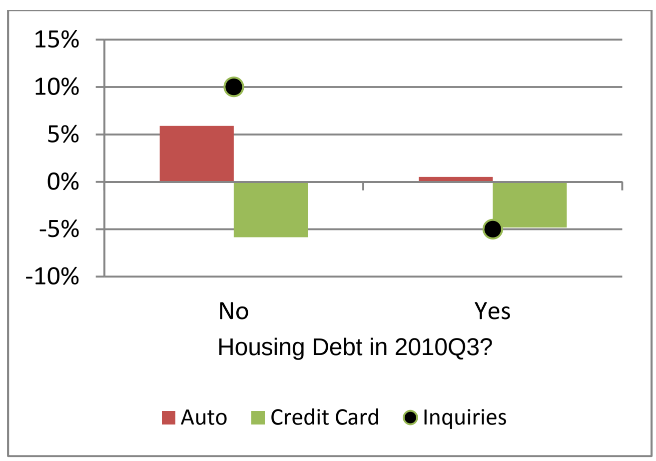
By Selected States



By Borrower Age



By Presence of Housing Debt in 2010Q3



Source: FRBNY Consumer Credit Panel.

Household Deleveraging and Consumption: Evidence using Aggregate and Household-Level Data

Daniel Cooper
Federal Reserve Bank of Boston
Exhibits by Kevin Todd

Exhibit 1

Deleveraging Defined

- Household balance sheet debt adjustment that lowers consumption.
- Consumption decline exceeds what would be predicted based on current and past changes in income and asset values.
    - Assumes a previous phase of leveraging where households increased consumption through debt accumulation.
    - Leveraging based on expectations about future returns to housing.
- Heavily indebted households decided that debt burdens were inconsistent with downwardly revised price expectations.

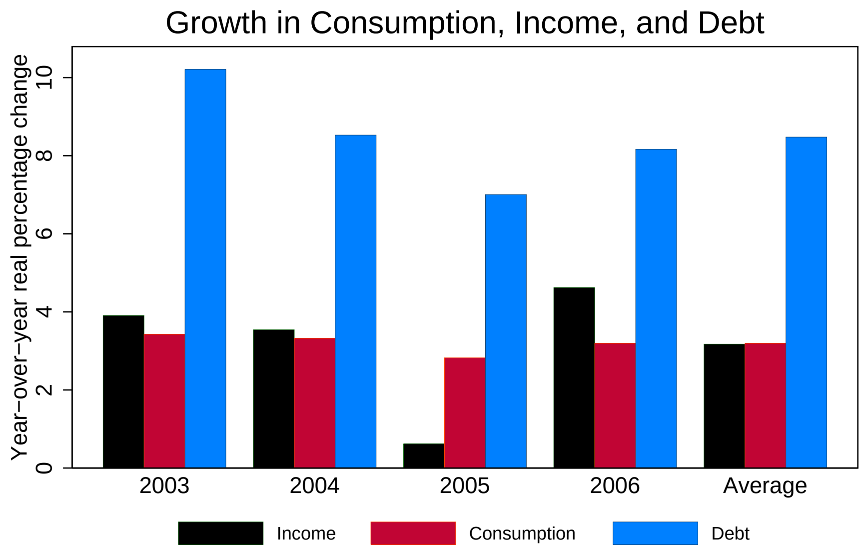
Deleveraging is not:

- Mortgage charge-offs due to foreclosure
- Debt reorganization to take advantage of lower interest rates
- Debt repayment through mortgage amortization
- Mortgage lenders forcing households to repay debt when house prices fall.

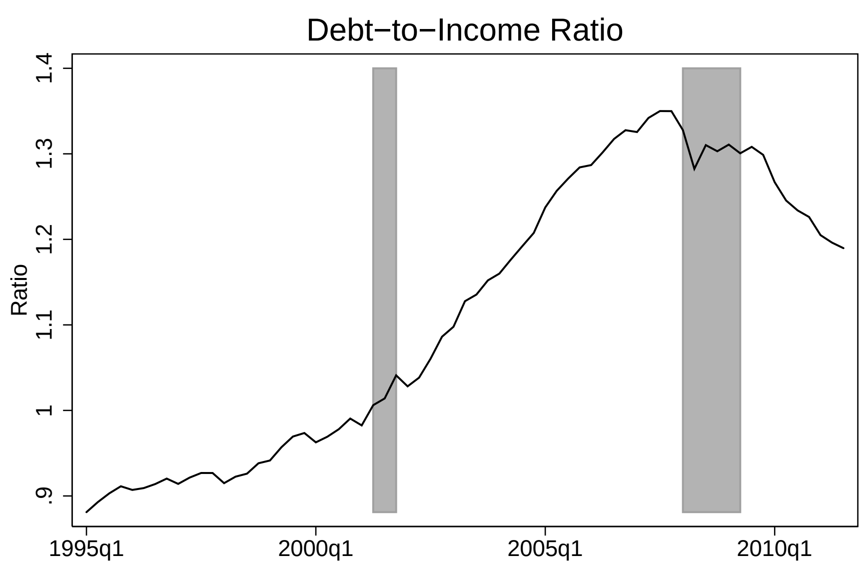
Overview of Presentation

- Analyze deleveraging at the aggregate and household level.
- Household-level data come from the Panel Study of Income Dynamics.
- Find little evidence of deleveraging in the micro or macro data.
- Movements in consumption prior to, during, and following the Great Recession are driven by employment, income, and net worth.

Exhibit 2



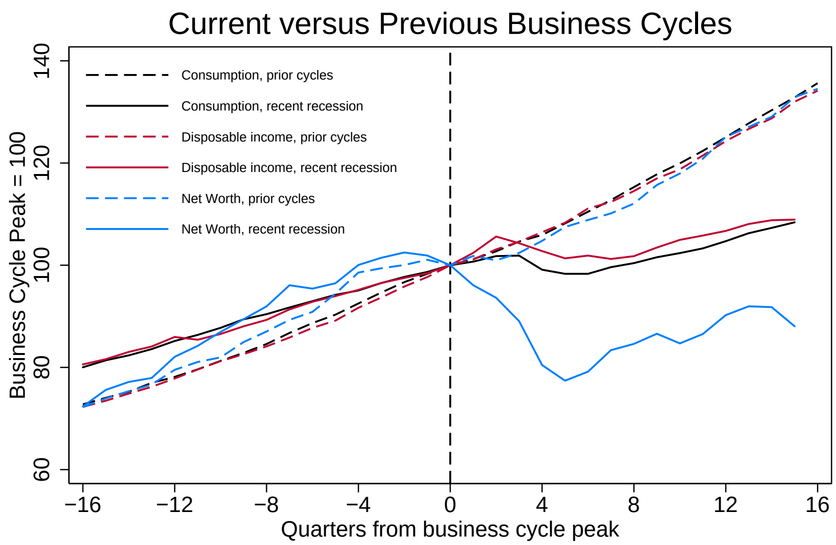
Source: BEA, Flow of Funds.
Note: Income is disposable personal income.



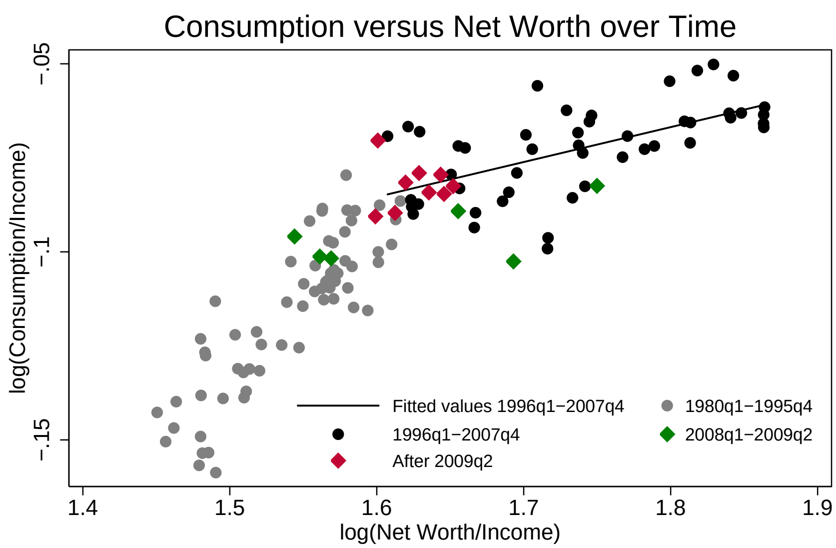
Source: BEA, Flow of Funds.
Note: Income is disposable personal income.

Exhibit 3

Consumption, Income, and Net Worth



Source: BEA, Flow of Funds.
Note: Prior cycles include the 1970, 1974, 1981−82, 1990, and 2001 recessions.



Source: BEA, Flow of Funds.
Note: Income is disposable personal income.

Exhibit 4

Panel Study of Income Dynamics

Key Characteristics

- Began in 1968.
- Follows households and their offspring annually through 1997; biennially thereafter.
- Most recent waves contain between 7,000 and 8,000 households.
- More comprehensive consumption data (in addition to food consumption) starting in 1999.
  - Designed to bring coverage more in line with the *Consumer Expenditure Survey*.
  - Added in 1999: health care, mortgage or rent payments, housing insurance, transportation, child care, schooling, recurring automobile costs, and utilities.
  - Added in 2005: home furnishings, recreation, clothing, and vacations.
- Most recent data are for 2009.

Selected Summary Statistics

	Avg. 2001-07	2007-09
Avg. Net Worth Decline (%)	11.1	15.0
Percent of Households w/ Debt Decline (%)	45.3	47.0
Avg. Debt Repayment ($)	7478	7937

Note: Sample restricted to households 64 or younger who did not move between PSID waves. Average net worth decline results are conditional on households' reporting a net worth decline. Average dollars of debt repayment are conditional on households' reporting a decline in debt, and are in constant 2000 dollars.

Exhibit 5

Change in Households' Consumption-to-Income and Debt-to-Income Ratios 2007 to 2009

		$\frac{Cons.}{Y}$	$\frac{Tot.Debt}{Y}$	N
Displaced Worker	High Debt	-0.161	-0.037	18
	Low Debt	-0.090	-0.114	29
Non-Displaced Worker	High Debt	-0.025	0.103	709
	Low Debt	-0.023	0.031	683

Note: Income held fixed at 2007 levels. *Tot.Debt* is total household debt. *Cons.* is reported household consumption and includes household spending on health care, housing, insurance, transportation, child care, schooling, recurring automobile costs, utilities, home furnishings, recreation, clothing, and vacations.

Empirical Specification

$$\begin{aligned} \Delta C_t = \alpha_0 &+ \alpha_1 \Delta Y_t + \alpha_2 \Delta NW_t + \alpha_3 age_t + \alpha_4 age_t^2 \\ &+ \alpha_5 age_t^3 + \alpha_6 famsize_t + \alpha_7 year_t + \epsilon_t \end{aligned} \tag{1}$$

Exhibit 6

Impact of Growth in Income and Net Worth on Consumption

Baseline Estimates

	All Households	
	2001-2007	2007-2009
Income Growth	0.10***	0.11***
Net Worth Growth	0.033***	0.040***
N	11911	2849

Note: Sample is restricted to households 64 or younger who did not move between PSID waves. Additional controls include a cubic term for the age of the head of household, family size, and year fixed effects. Robust standard errors; *** significant at the 1 percent level.

Results by Homeownership Status

	Owners		Renters	
	2001-2007	2007-2009	2001-2007	2007-2009
Income Growth	0.08***	0.09***	0.11***	0.12***
Net Worth Growth	0.024***	0.024**	0.050***	0.073***
N	9973	2515	1377	337

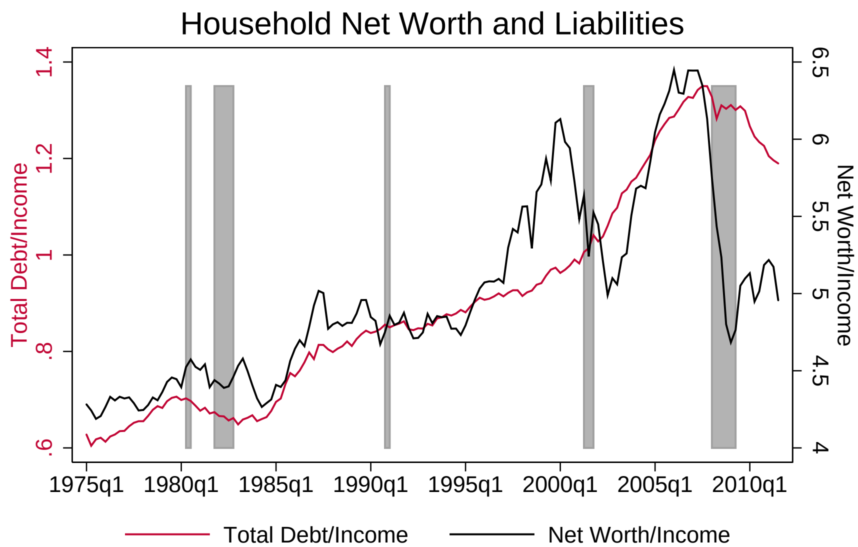
Note: Owners own their home in consecutive PSID waves, while renters are tenants in consecutive waves. Sample is restricted to households 64 or younger who did not move between PSID waves. Additional controls include a cubic term for the age of the head of household, family size, and year fixed effects. Robust standard errors; *** significant at the 1 percent level, ** significant at the 5 percent level.

Results based on Debt Holdings

	Above Median Debt		Below Median Debt	
	2001-2007	2007-2009	2001-2007	2007-2009
Income Growth	0.11***	0.10***	0.08***	0.12***
Net Worth Growth	0.018***	0.028**	0.044***	0.062***
N	5707	1627	6114	1307

Note: Debt is total household debt and includes both collateralized and noncollateralized debt holdings. Sample is restricted to households 64 or younger who did not move between PSID waves. Additional controls include a cubic term for the age of the head of household, family size, and year fixed effects. Robust standard errors; *** significant at the 1 percent level, ** significant at the 5 percent level.

Exhibit 7



Source: BEA, Flow of Funds.
Note: Income is disposable personal income.

Consumption Growth Estimates
Households with Debt Declines

	All Households	
	2001-2007	2007-2009
Income Growth	0.09***	0.10***
Net Worth Growth	0.040***	0.036***
Households w/ Debt Decline [DD]	-0.024***	-0.027***
Income Growth x DD	0.007	-0.004
Net Worth Growth x DD	-0.006	0.018
N	11639	2849

Note: Sample is restricted to households 64 or younger who did not move between PSID waves. Debt Decline [DD] is an indicator variable for households who report a debt decline between consecutive PSID waves. Additional controls include a cubic term for the age of the head of household, family size, and year fixed effects. Robust standard errors; *** significant at the 1 percent level.

Exhibit 8

Summary

- Little empirical evidence during and/or following the Great Recession that factors other than ongoing developments in income and net worth had an impact on consumption.
- Even if pent-up demand for deleveraging exists, the risks to consumption growth would be limited.
- The standard relationship linking consumption to income and net worth should continue to be a reasonable predictor of household spending.

Appendix 2: Materials used by Ms. Yellen

Consensus Statement on Longer-Run Goals and Policy Strategy

January 24, 2012

The FOMC's Longer-Run Goals and Policy Strategy

Following careful deliberations at its recent meetings, the Federal Open Market Committee (FOMC) has reached broad agreement on the following principles regarding its longer-run goals and monetary policy strategy. The Committee intends to reaffirm these principles and to make adjustments as appropriate at its annual organizational meeting each January.

1. The FOMC is firmly committed to fulfilling its statutory mandate from the Congress of promoting maximum employment, stable prices, and moderate long-term interest rates. The Committee seeks to explain its monetary policy decisions to the public as clearly as possible. Such clarity facilitates well-informed decision-making by households and businesses, reduces economic and financial uncertainty, increases the effectiveness of monetary policy, and enhances transparency and accountability, which are essential in a democratic society.
2. Inflation, employment, and long-term interest rates fluctuate over time in response to economic and financial disturbances. Moreover, monetary policy actions tend to influence economic activity and prices with a lag. Therefore, the Committee's policy decisions reflect its longer-run goals, its medium-term outlook, and its assessments of the balance of risks, including risks to the financial system that could impede the attainment of the Committee's goals.
3. The inflation rate over the longer run is primarily determined by monetary policy, and hence the Committee has the ability to specify a longer-run goal for inflation. The Committee judges that inflation at the rate of 2 percent, as measured by the annual change in the price index for personal consumption expenditures, is most consistent over the longer run with the Federal Reserve's statutory mandate. Communicating this inflation goal clearly to the public helps keep longer-term inflation expectations firmly anchored, thereby fostering price stability and moderate long-term interest rates and enhancing the Committee's ability to promote maximum employment in the face of significant economic disturbances.
4. The maximum level of employment is largely determined by nonmonetary factors that affect the structure and dynamics of the labor market. These factors may change over time and may not be directly measurable. Consequently, it would not be appropriate to specify a fixed goal for employment; rather, the Committee's policy decisions must be informed by assessments of the maximum level of employment, recognizing that such assessments are necessarily uncertain and subject to revision. The Committee considers a wide range of indicators in making these assessments. Information about Committee participants' estimates of the longer-run normal rates of output growth and unemployment is published four times per year in the FOMC's Summary of Economic Projections. For example, in the most recent projections, FOMC participants' estimates of the longer-run normal rate of unemployment had a central tendency of 5.2 percent to 6.0 percent, roughly unchanged from last January but substantially higher than the corresponding interval several years earlier.
5. In setting monetary policy, the Committee seeks to mitigate deviations of inflation from its longer-run goal and deviations of employment from the Committee's assessments of its maximum level. These objectives are generally complementary. However, under circumstances in which the Committee judges that the objectives are not complementary, it follows a balanced approach in promoting them, taking into account the magnitude of the deviations and the potentially different time horizons over which employment and inflation are projected to return to levels judged consistent with its mandate.

Appendix 3: Materials used by Mr. Sack

Class II FOMC - Restricted FR

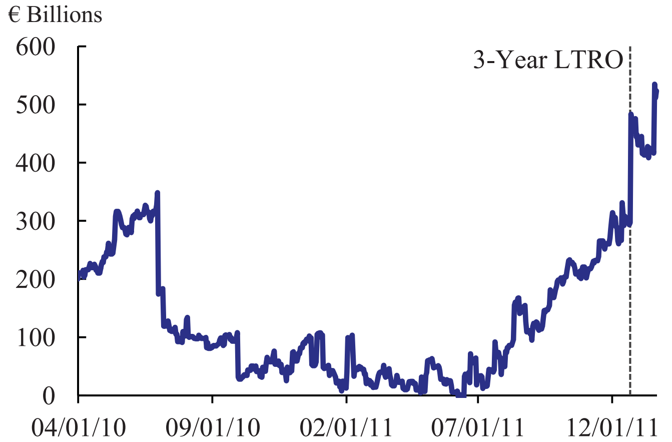
Material for

FOMC Presentation:
Financial Market Developments and Desk Operations

Brian Sack

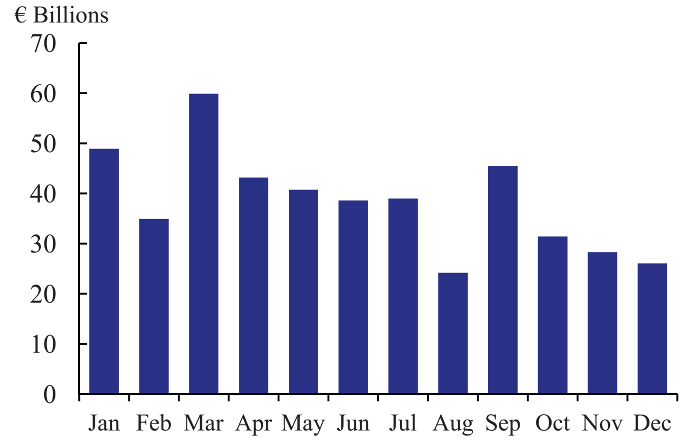
January 24, 2012

(1) Euro Area Excess Liquidity*



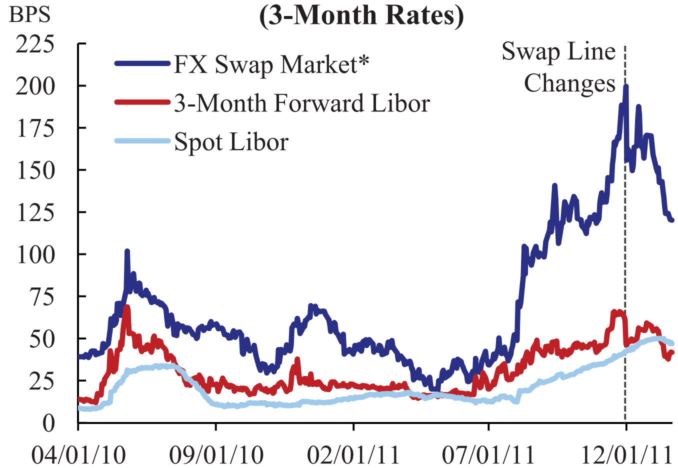
*Excess reserves plus deposit facility balance at ECB, excluding fine-tuning operation days.
Source: ECB

(2) Maturing European Bank Debt*



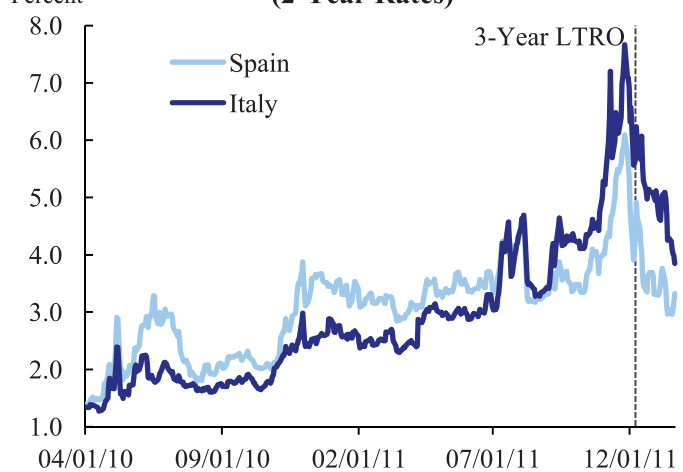
*Maturing longer-term unsecured and secured bank debt in 2012 for 16 banks in euro area, UK, and Switzerland.
Source: Dealogic

(3) Dollar Funding Spreads to OIS (3-Month Rates)



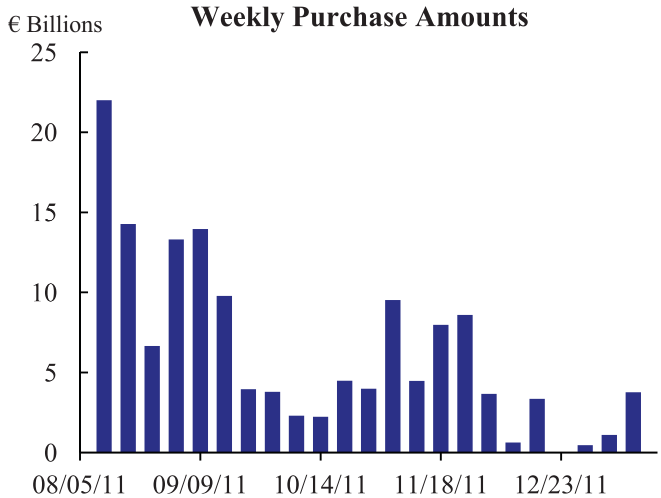
*Euro Libor rate swapped to dollars.
Source: Bloomberg, Federal Reserve Bank of New York

(4) Euro Area Sovereign Yields (2-Year Rates)



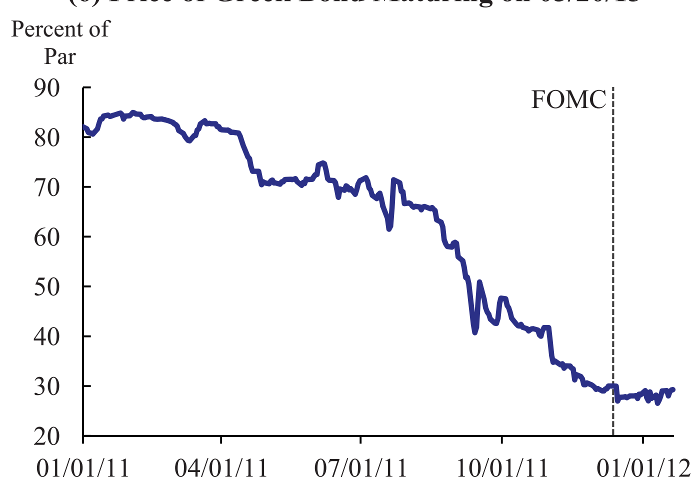
Source: Bloomberg

(5) ECB Securities Markets Program Weekly Purchase Amounts



Source: ECB

(6) Price of Greek Bond Maturing on 05/20/13*

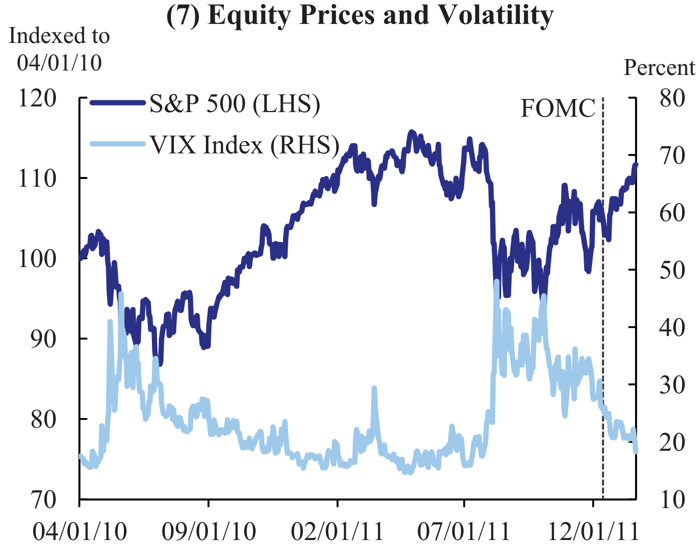


*10-year note issued 01/09/03 with 4.6% coupon.
Source: Bloomberg

Class II FOMC – Restricted FR

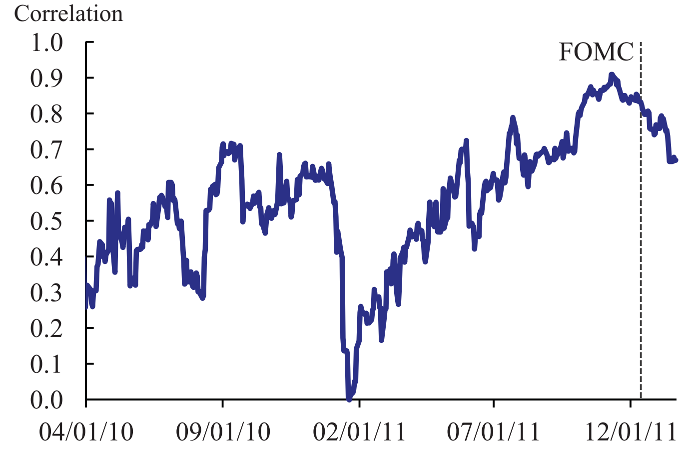
Exhibit 2

(7) Equity Prices and Volatility



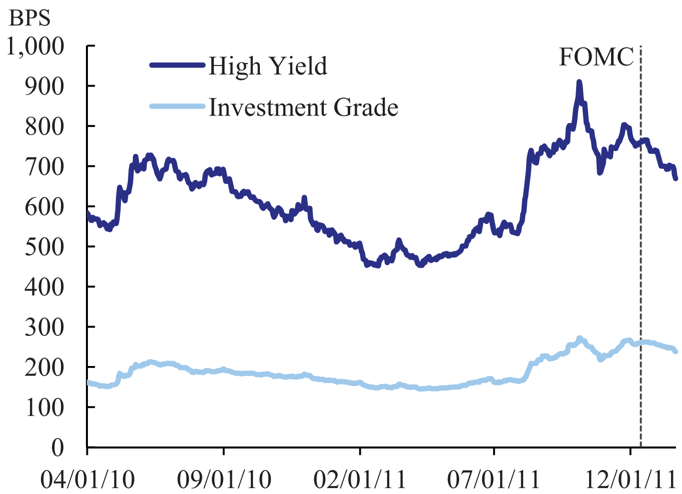
Source: Bloomberg

(8) Correlation of S&P 500 with Euro*



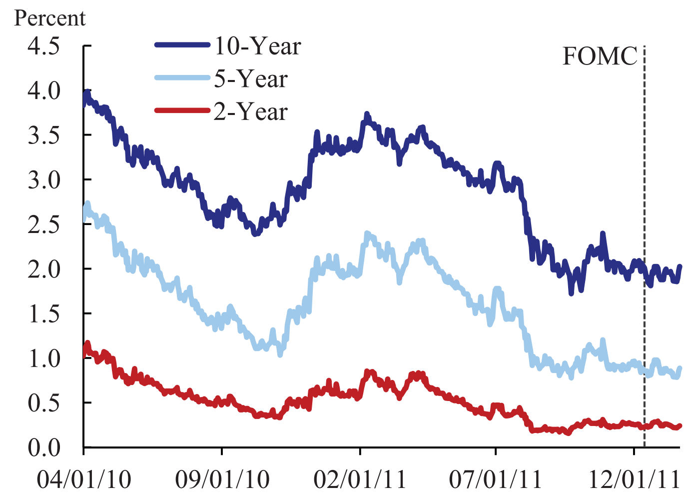
*30-day rolling correlation of daily percent changes in S&P 500 index and euro-dollar exchange rate.
Source: Bloomberg

(9) Corporate Bond Spreads to Treasury



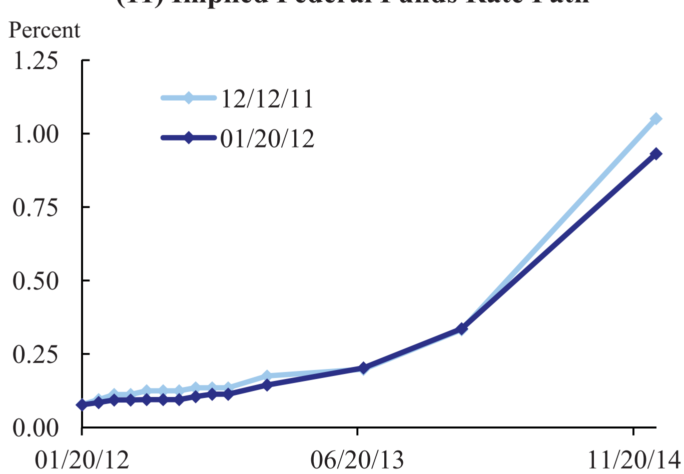
Source: Bank of America-Merrill Lynch

(10) Treasury Yields



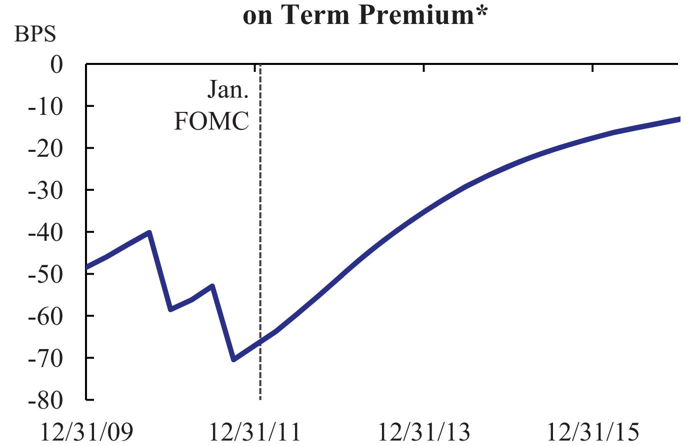
Source: Bloomberg

(11) Implied Federal Funds Rate Path*



*Risk neutral path derived from federal funds futures and eurodollar futures.
Source: Bloomberg, Federal Reserve Bank of New York

(12) Estimated Effect of SOMA Balance Sheet on Term Premium*

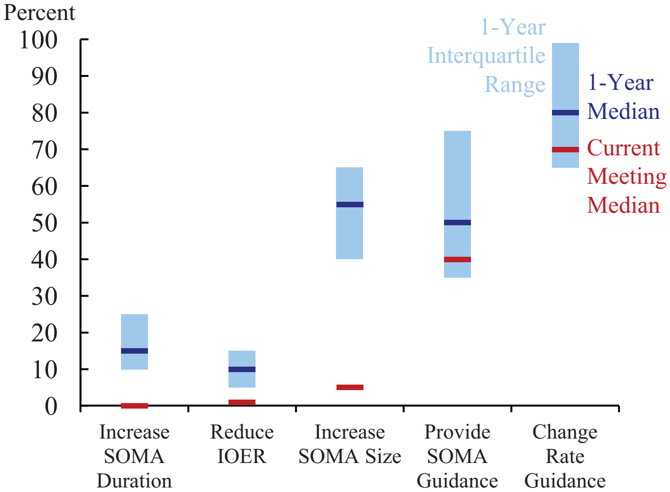


*Effect on term premium embedded in 10-year Treasury yield, as estimated by Wei-Li (2012) model.
Source: Federal Reserve Board of Governors

Class II FOMC – Restricted FR

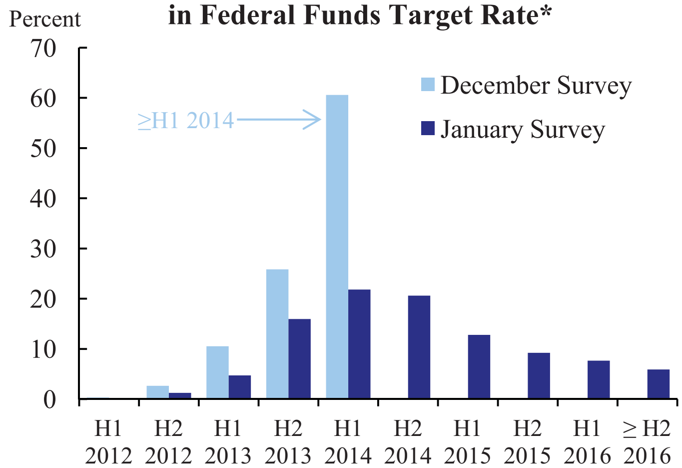
Exhibit 3

(13) Probability of Additional Policy Actions



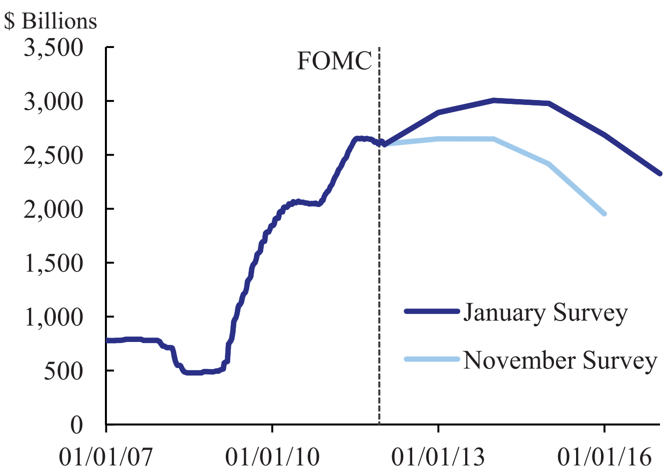
Source: Federal Reserve Bank of New York Survey

(14) Probability Distribution of First Increase in Federal Funds Target Rate*



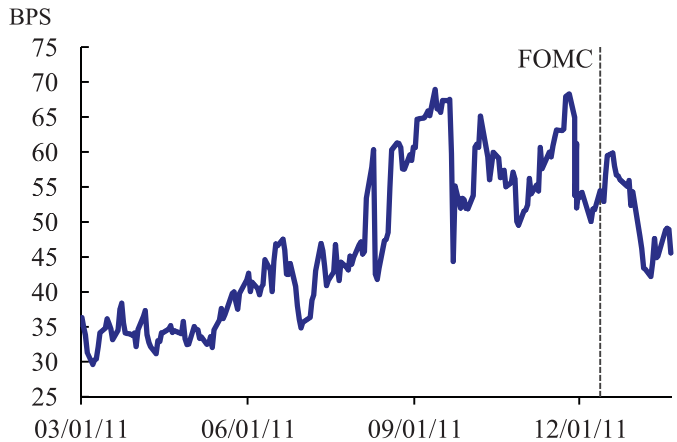
*Average probabilities from dealer responses.
Source: Federal Reserve Bank of New York Survey

(15) SOMA Portfolio Holdings*



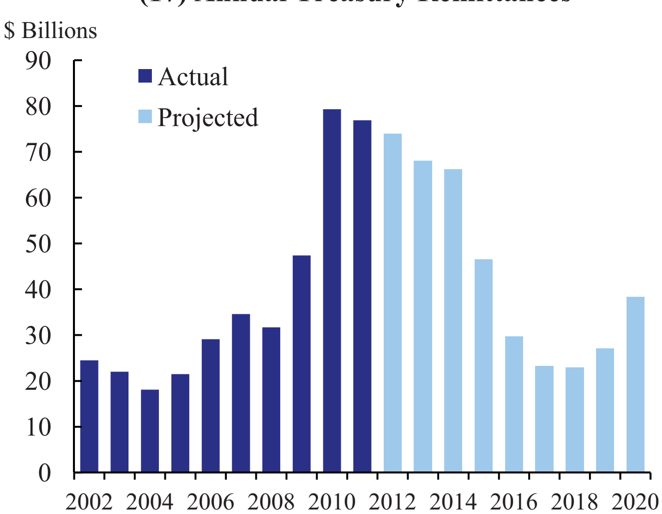
*Actual values through 01/18/12, median dealer responses after 01/18/12.
Source: Federal Reserve Bank of New York Survey

(16) MBS Option-Adjusted Spread to Treasury*



*Current coupon spread spliced with 3.5% coupon spread when current coupon rate is below 3.5%.
Source: Barclays Capital

(17) Annual Treasury Remittances



Source: Federal Reserve Bank of New York

(18) SOMA Operations Since September 2011 FOMC Meeting

	Number of Operations/ Transactions	Total Amount ($ Billions)
MEP Treasury Purchases	48	162.5
MEP Treasury Sales	23	170.4
MBS Purchases	635	98.1

Source: Federal Reserve Bank of New York

Appendix 4: Materials used by Messrs. Engen, Reeve, and Gallin

CLASS II FOMC - Restricted (FR)

Material for

Staff Presentation on the Economic Outlook

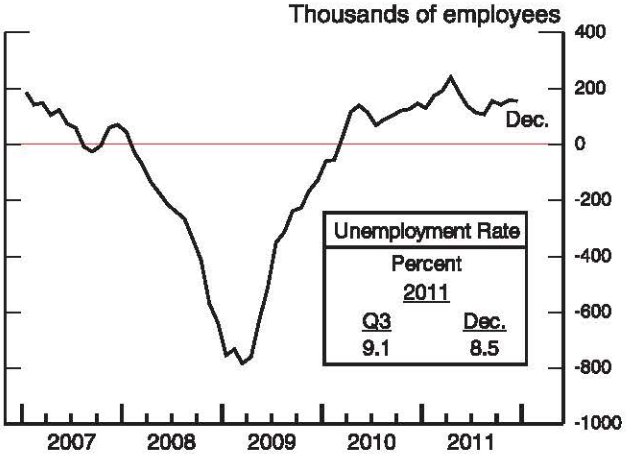
January 24-25, 2012

Class II FOMC - Restricted (FR)

Exhibit 1

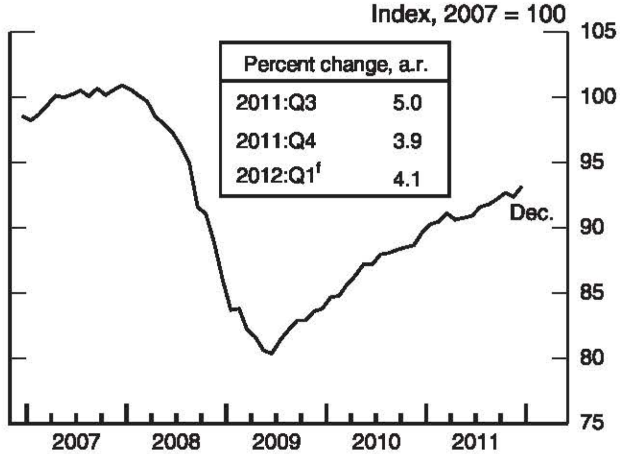
Recent Indicators

Change in Private Payroll Employment



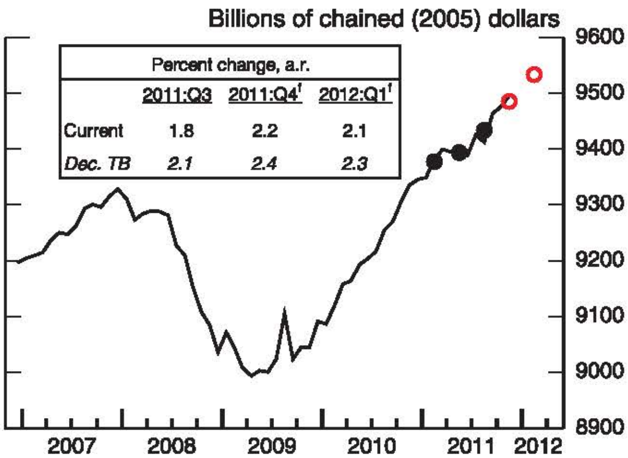
Note: Three-month moving average.

Manufacturing IP



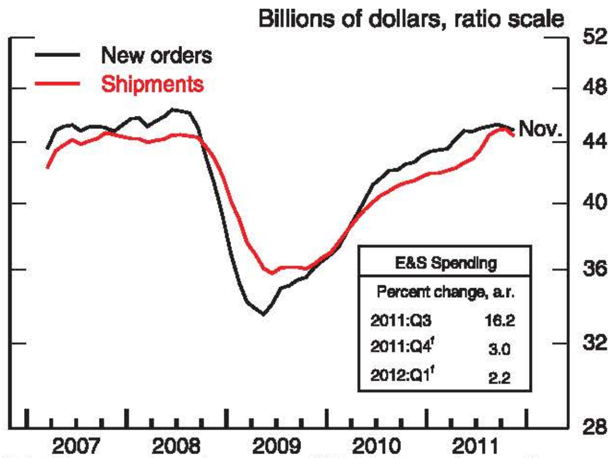
f. Staff forecast.

Real Personal Consumption Expenditures



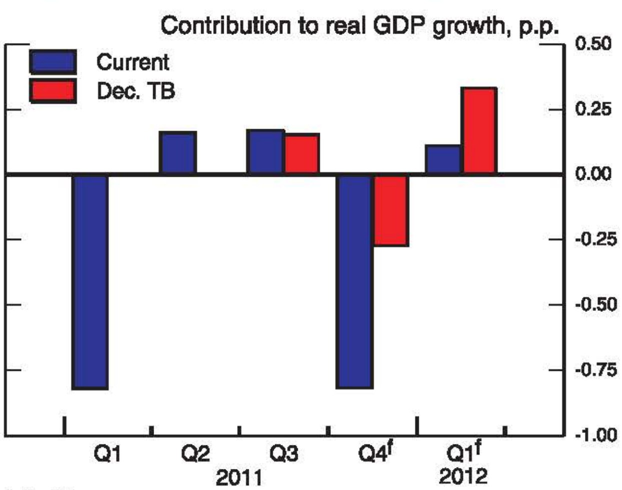
Note: 2011:Q4 and 2012:Q1 are staff estimates.

Nondefense Capital Goods Ex. Aircraft



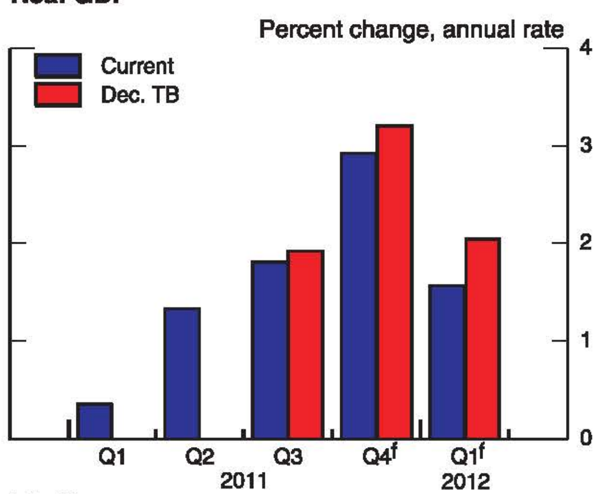
Note: Three-month moving average. Weighted sum of new orders and shipments across more than 30 equipment categories, with weights given by the share of total shipments in each category that is purchased for private business investment.

Real Federal Government Purchases



f. Staff forecast.

Real GDP



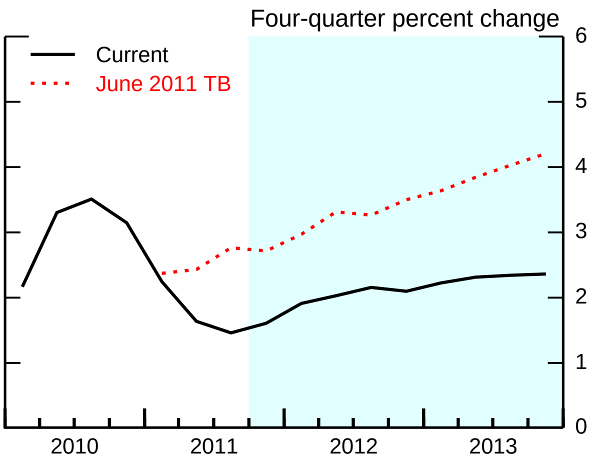
f. Staff forecast.

Class II FOMC - Restricted (FR)

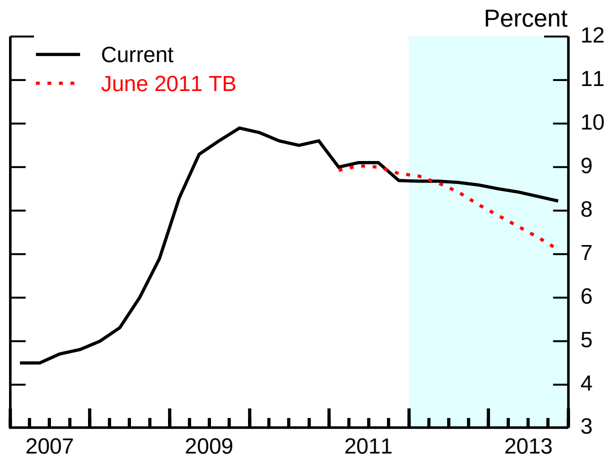
Exhibit 2

Medium-term Forecast

Real GDP



Unemployment Rate



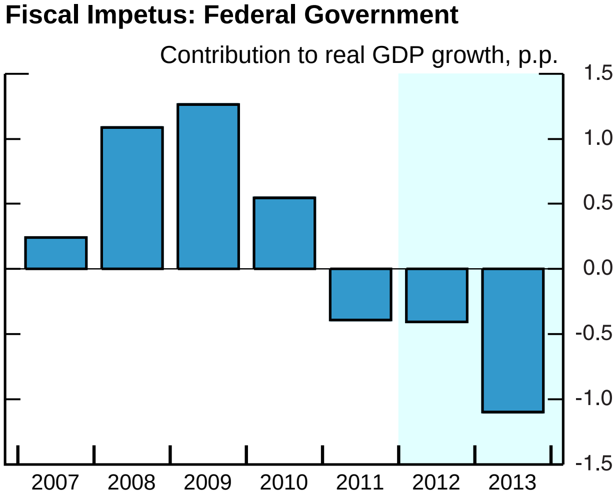
Factors Restraining Recovery

- European situation:
  - Higher value of the dollar.
  - Lower exports.
  - Increased uncertainty.
- Difficult access to credit.
- Depressed housing market.

Reserve Bank Inquiries of Their District Business Contacts

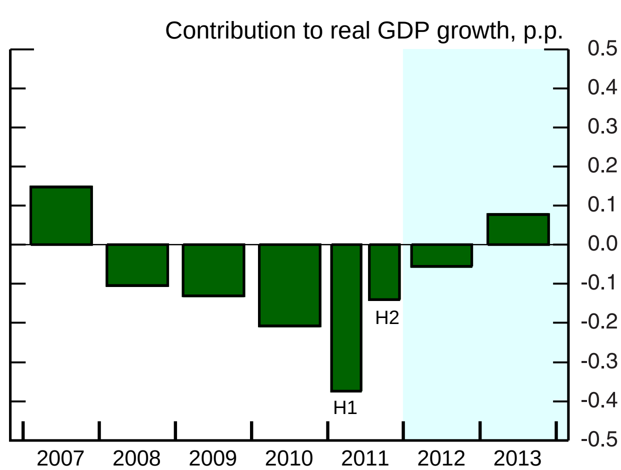
Question	Percent Jun. 2011	Percent Jan. 2012
Plan to increase employment	45	41
Low sales growth restraining hiring	42	47

Fiscal Impetus: Federal Government



Note: Staff estimates.

Real State and Local Government Purchases



Class II FOMC - Restricted (FR) Exhibit 3

Some Risks Around the Forecast

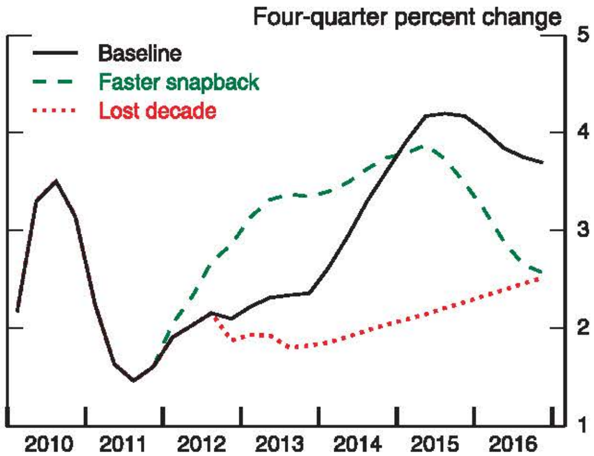
Faster Snapback

- Financial recovery may be further along than assumed.
- Recent improvement in labor and production indicators may signal more sustained recovery.
- More pent-up demand for durables and business equipment is released.

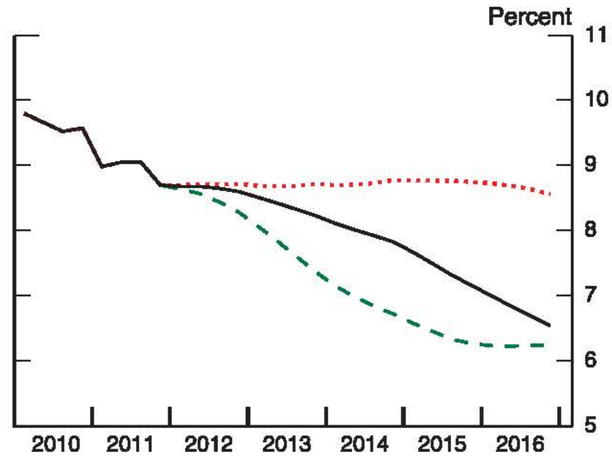
Lost Decade

- Improvements in financial conditions are slower to materialize.
- Consumer and business confidence remains subdued.
- Persistently slow spending has negative supply-side effects.

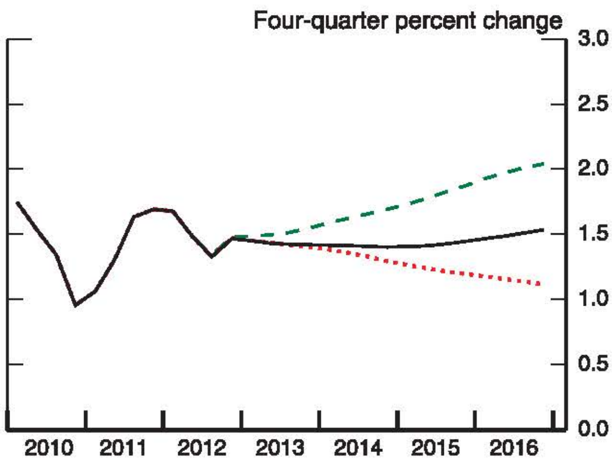
Real GDP



Unemployment Rate



Core PCE Prices



Federal Funds Rate

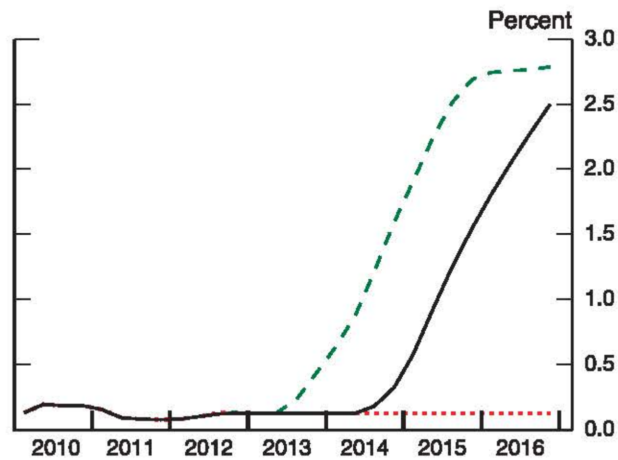
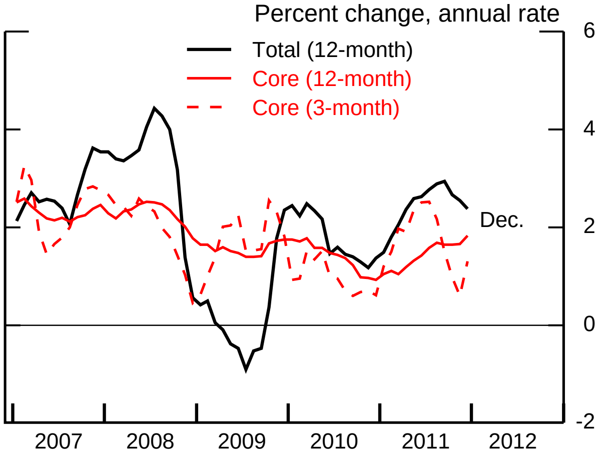


Exhibit 4

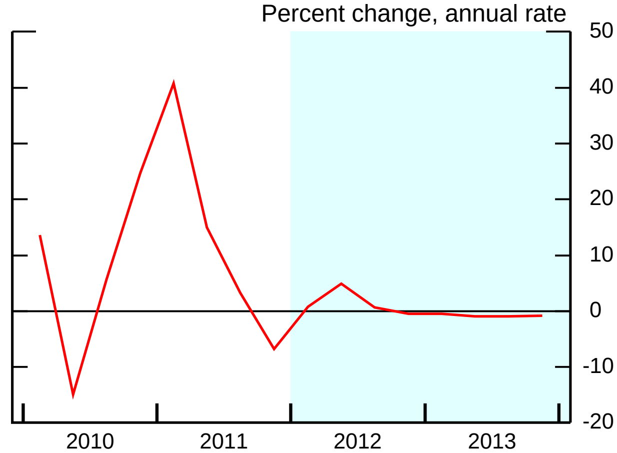
Inflation Projection

PCE Prices



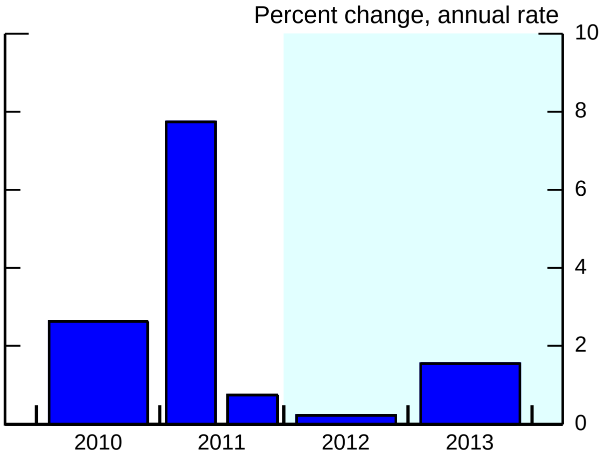
Note: Staff forecast for December.

PCE Energy Prices



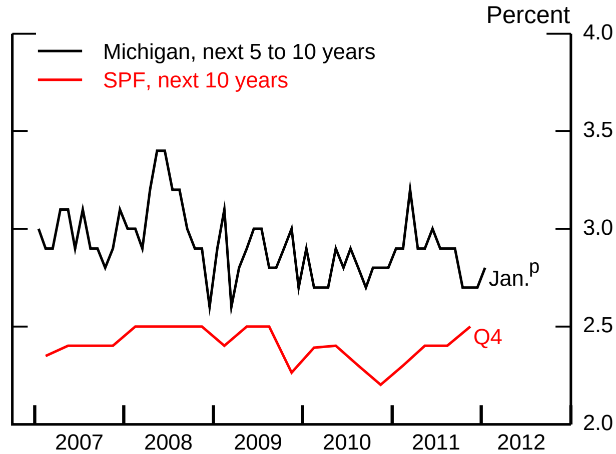
Note: 2011:Q4 is an estimate based on monthly data through October.

Core Nonfuel Import Prices



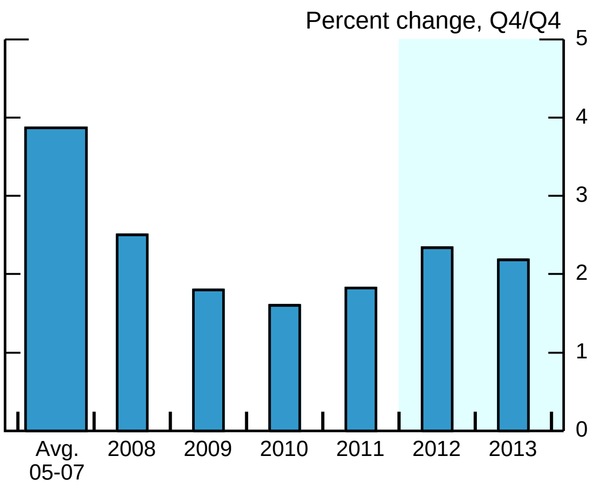
Note: 2011:Q4 is an estimate based on monthly data through October.

Inflation Expectations



p. Preliminary.
Note: Median responses to the Michigan survey. The SPF projection is for the PCE price index.

Compensation per Hour*



* Nonfarm business sector.

PCE Price Projection

(Percent change, Q4/Q4)

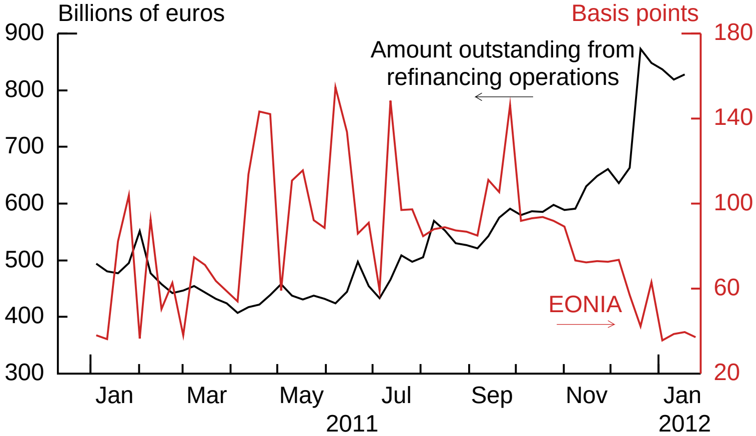
	2011	2012	2013
1. PCE price index	2.5	1.4	1.3
2. Food	5.0	1.1	1.2
3. Energy	11.7	1.4	-0.9
4. Core PCE	1.7	1.5	1.4

Class II FOMC - Restricted (FR)

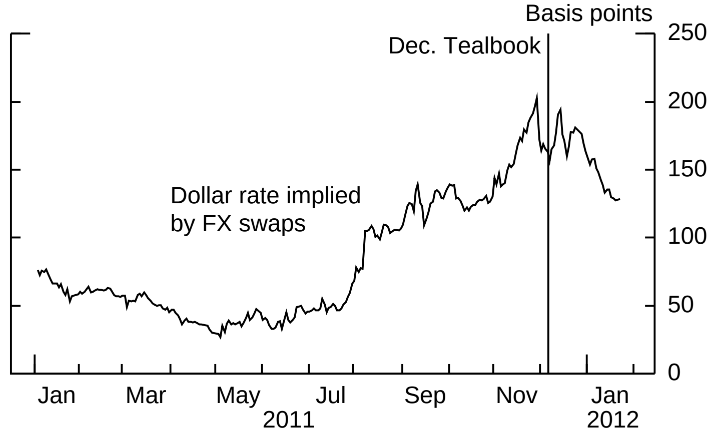
Exhibit 5

European Developments

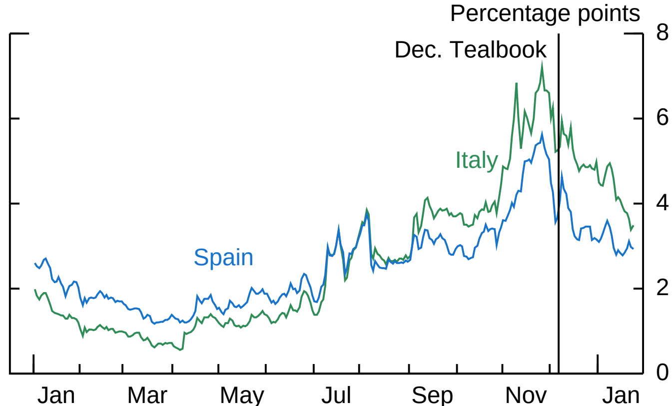
Effects of ECB Operations



Three-month Dollar Funding Rate

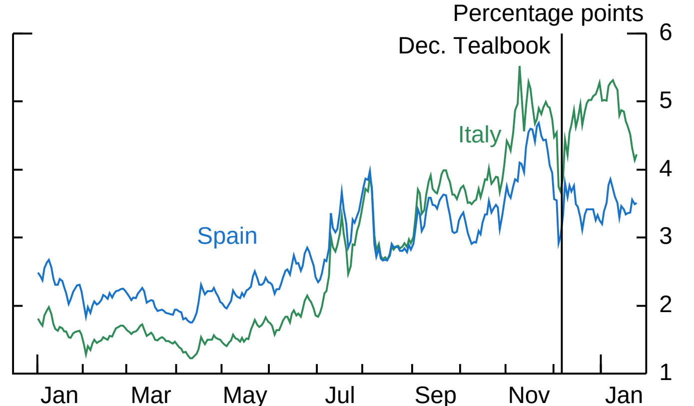


Two-year Sovereign Bond Spreads*



* Two-year bond yield relative to German bunds.

10-year Sovereign Bond Spreads*

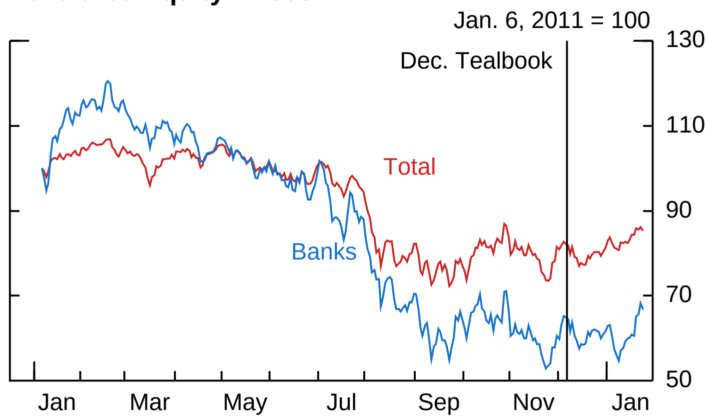


* 10-year bond yield relative to German bunds.

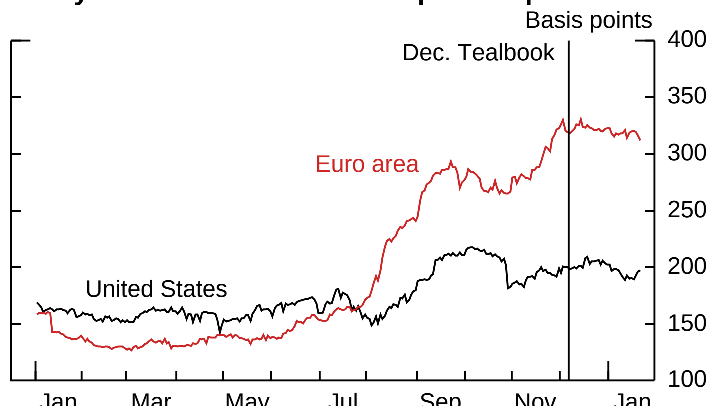
Recent Developments

- Little concrete progress on increasing financial backstops.
  - Permanent facility, ESM, may not add to total funds and will take time to implement.
  - Leveraged EFSF not operational.
  - S&P's downgrade of EFSF may limit effectiveness.
- With insufficient firewalls, any number of shocks may cause financial conditions to deteriorate.
  - Efforts to restructure Greek debt may not prevent disorderly default.

Euro-area Equity Prices



Five-year BBB Nonfinancial Corporate Spreads*



* Relative to comparable German and U.S. sovereign bonds, respectively.

Class II FOMC - Restricted (FR)

Exhibit 6

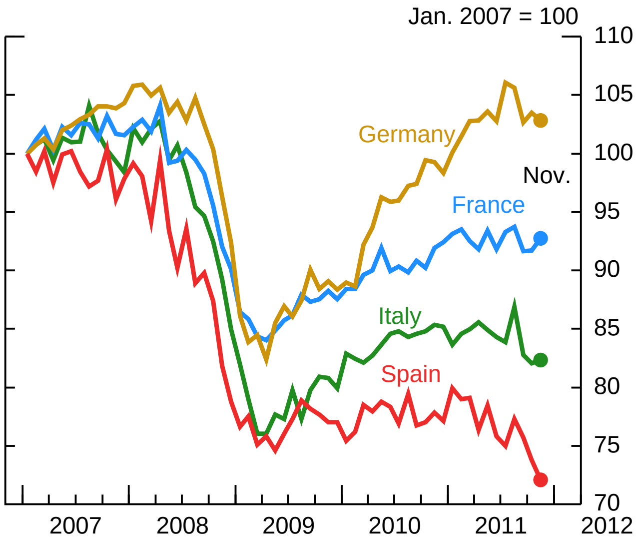
Outlook for Growth in the Advanced Foreign Economies

Real GDP* Percent change, annual rate

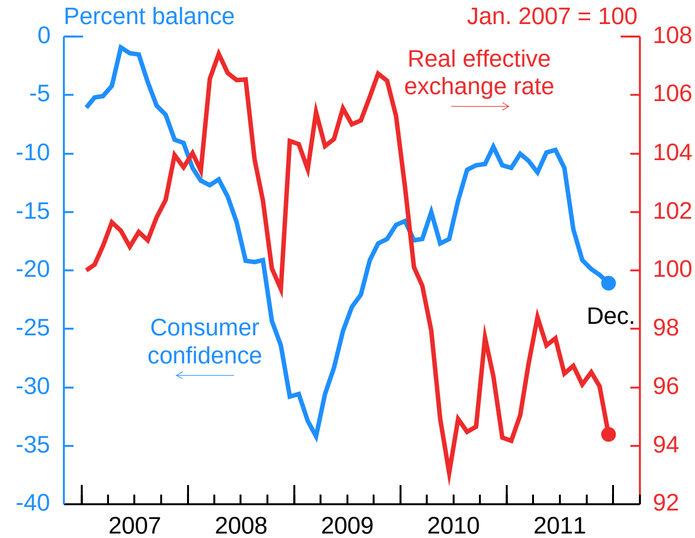
	2011 Q3	2011 Q4[e]	2012 Q1[f]	2012 Q2-Q4[f]	2013[f]
1. Advanced foreign economies	**2.7**	**0.6**	**0.6**	**0.9**	**1.5**
2. December Tealbook	*2.7*	*1.0*	*0.7*	*0.9*	*1.6*
3. Euro area	0.5	-1.2	-1.9	-1.0	0.6
4. United Kingdom	2.3	-0.3	0.1	0.8	1.8
5. Japan	5.6	0.4	2.8	1.6	1.3
6. Canada	3.5	2.0	1.9	1.9	2.0

* GDP aggregates weighted by shares of U.S. merchandise exports.

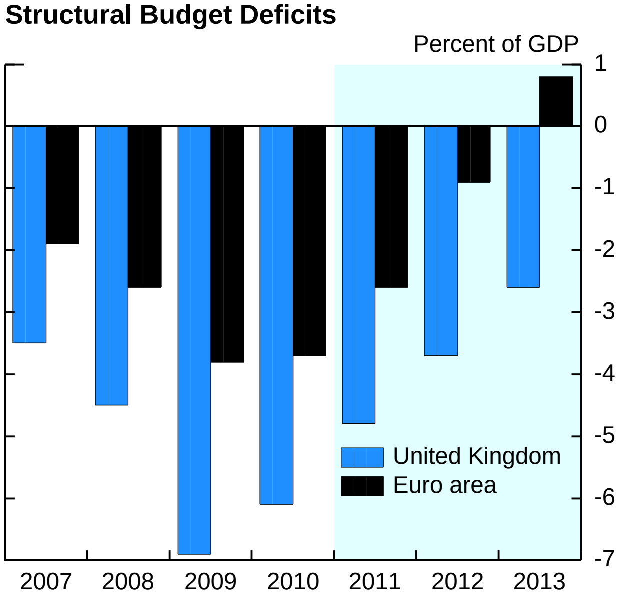
Industrial Production



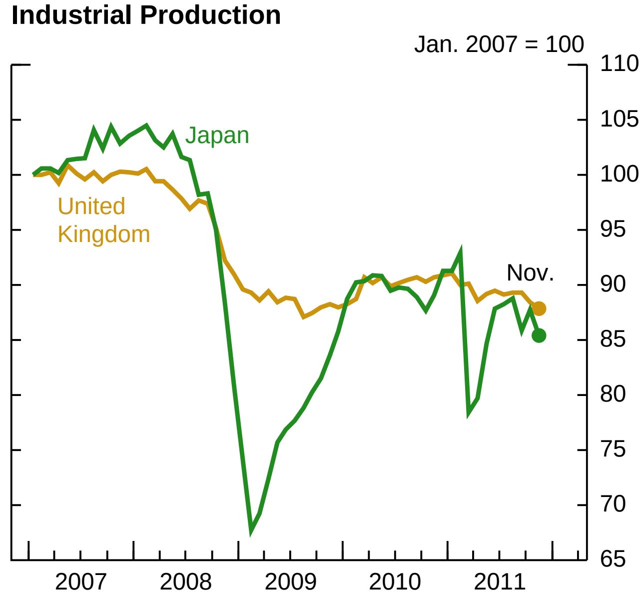
Euro Area



Structural Budget Deficits



Industrial Production



Class II FOMC - Restricted (FR)

Exhibit 7

Outlook for Growth in the Emerging Market Economies

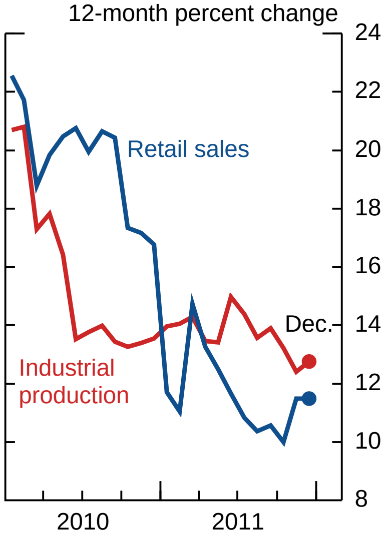
Real GDP* — Percent change, annual rate

	2011		2012		2013[f]
	Q3	Q4[e]	Q1[f]	Q2-Q4[f]	
1. Emerging market economies	**4.6**	**3.5**	**4.6**	**4.3**	**4.5**
2. December Tealbook	*4.7*	*3.7*	*4.4*	*4.4*	*4.6*
3. China	9.5	8.2	8.0	7.9	8.1
4. Other emerging Asia	2.3	1.3	4.2	4.2	4.5
5. Mexico	5.5	3.5	3.7	2.9	3.0
6. Other Latin America	2.7	2.8	3.3	3.4	3.6

* GDP aggregates weighted by shares of U.S. merchandise exports.

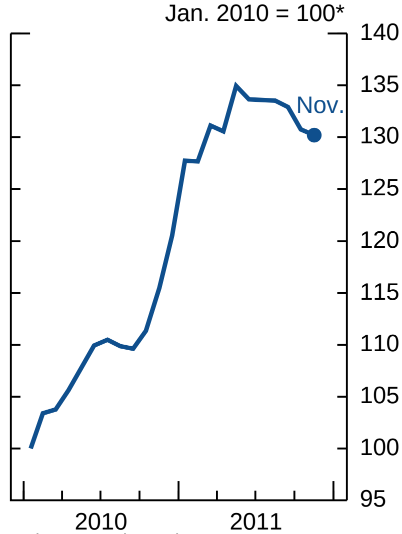
China

12-month percent change



EME Exports

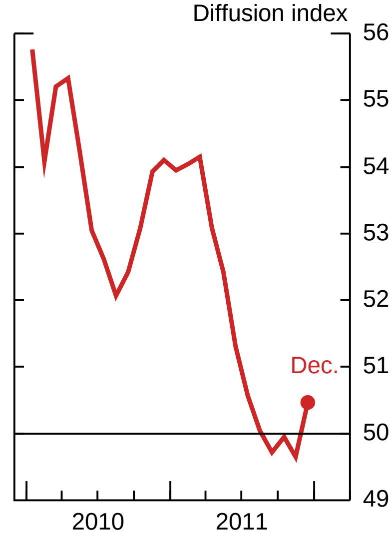
Jan. 2010 = 100*



* Three-month moving average.

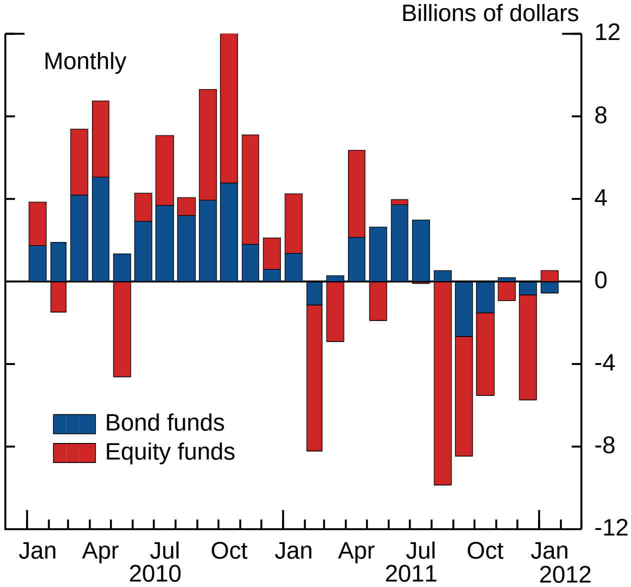
EME Manufacturing PMI

Diffusion index



Flows to EME Dedicated Funds*

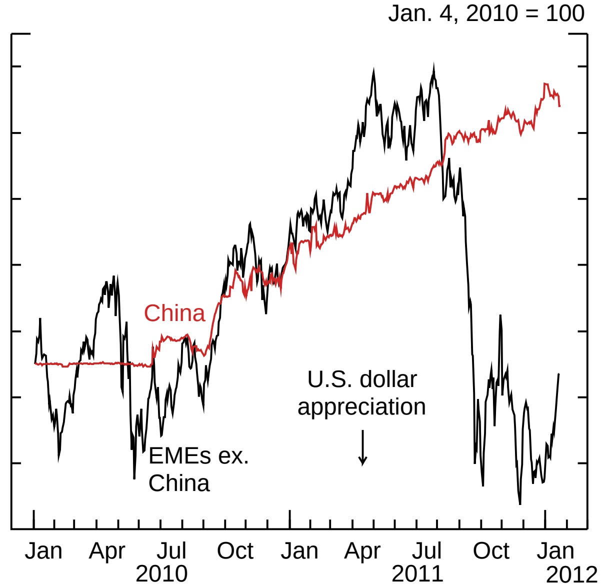
Billions of dollars



* January 2012 is extrapolated from data through January 18, 2012.
Source: Emerging Portfolio Fund Research.

EME Exchange Rates

Jan. 4, 2010 = 100

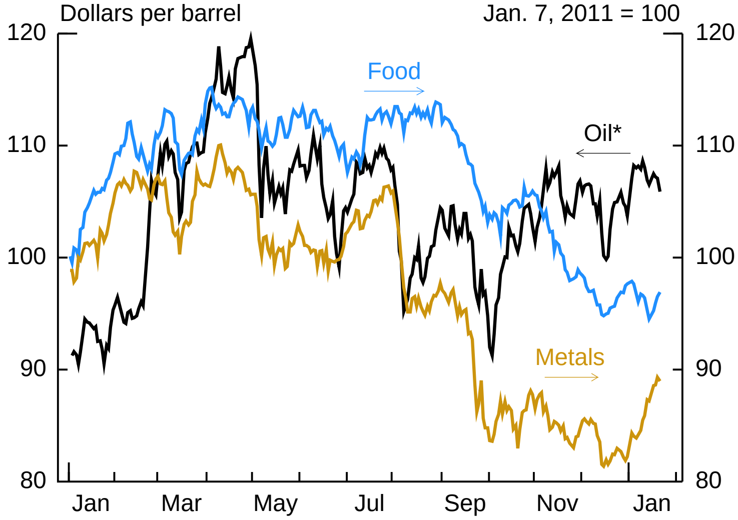


Class II FOMC - Restricted (FR)

Exhibit 8

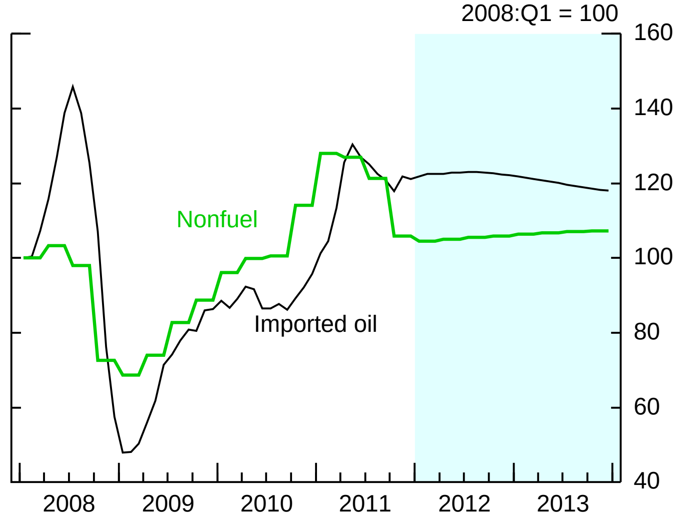
Inflation and Monetary Policy

Commodity Prices

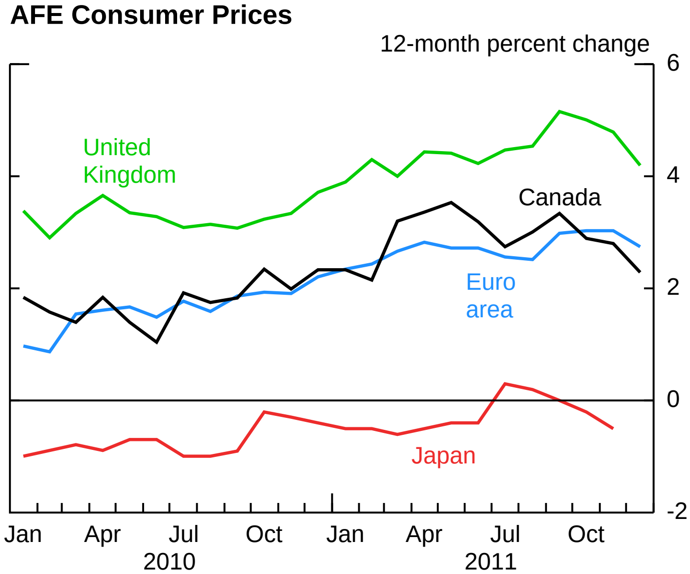


* Average of WTI, Brent, and Dubai spot prices.

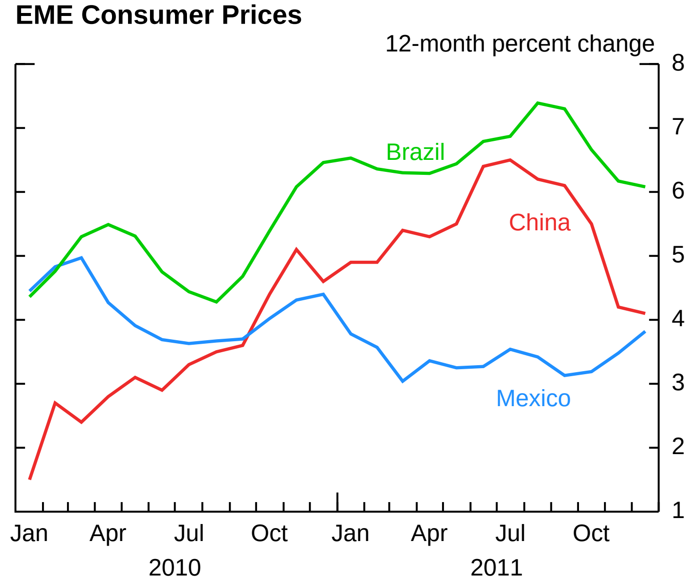
Commodity Price Outlook



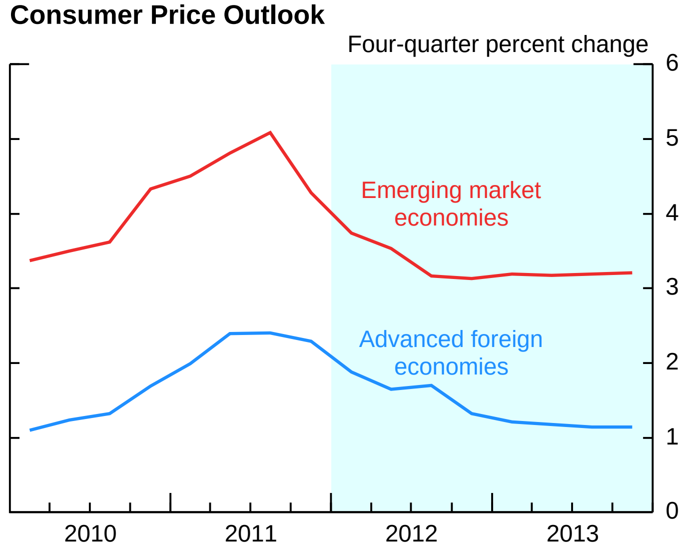
AFE Consumer Prices



EME Consumer Prices



Consumer Price Outlook



Monetary Policy

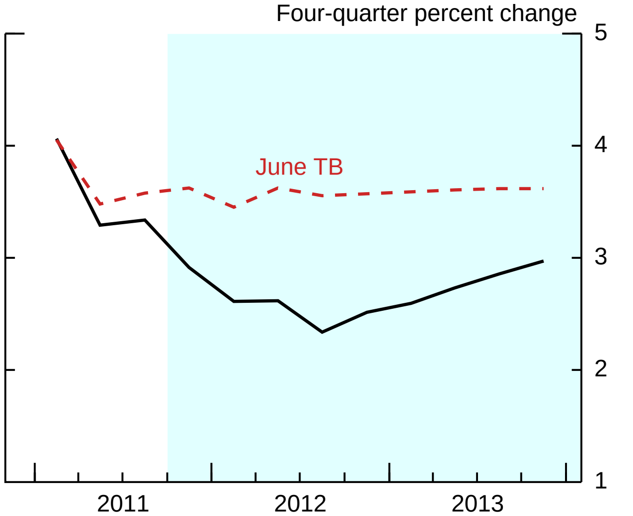
- In AFEs, monetary policy will remain accommodative.
  - Continued extraordinary liquidity provision by ECB.
  - Expansion of asset purchases by BoE and BoJ.
- In EMEs, monetary policy will likely be eased somewhat.
  - Though in some cases, continued concerns about inflation may limit scope for easing.

Class II FOMC - Restricted (FR)

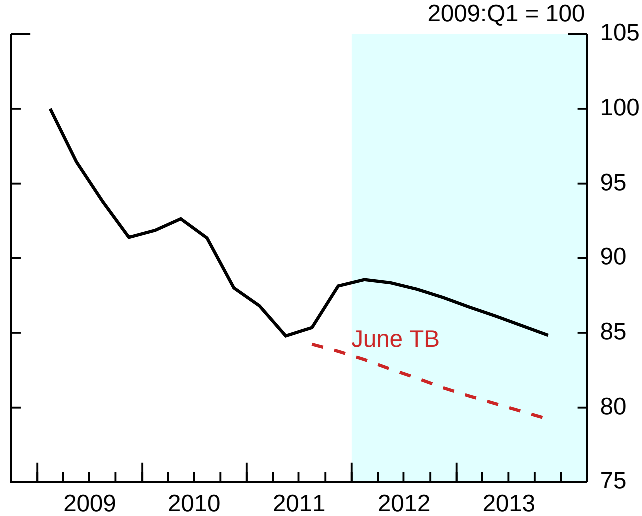
Exhibit 9

U.S. External Sector

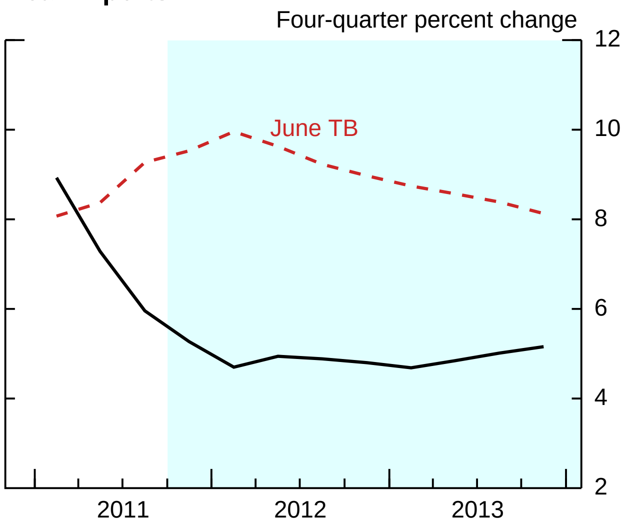
Total Foreign Real GDP



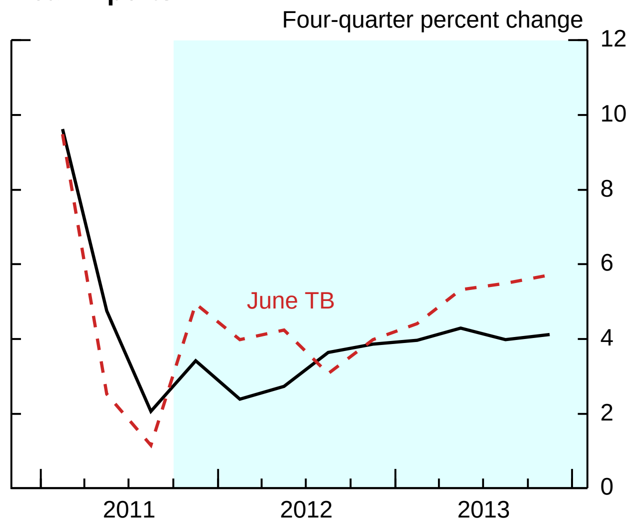
Broad Real Dollar



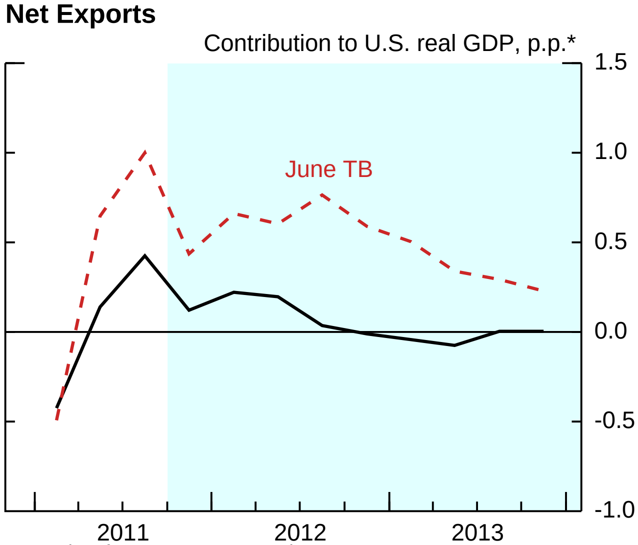
Real Exports



Real Imports

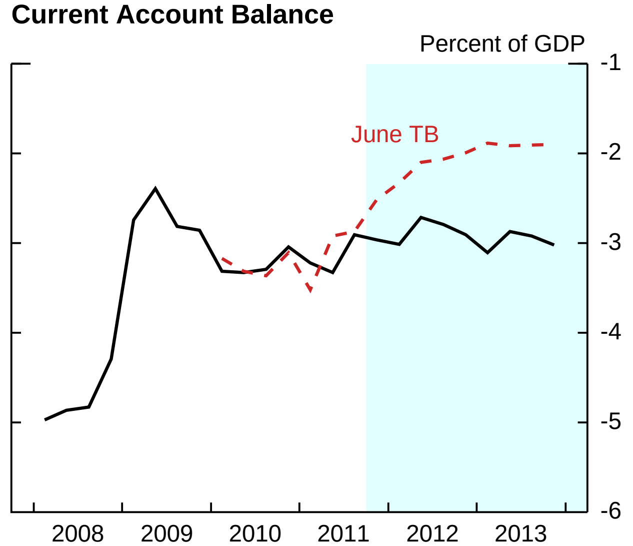


Net Exports



* Based on four-quarter percent changes.

Current Account Balance

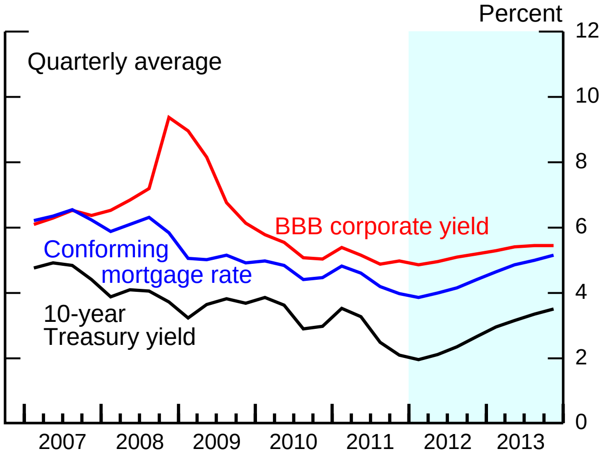


Class II FOMC - Restricted (FR)

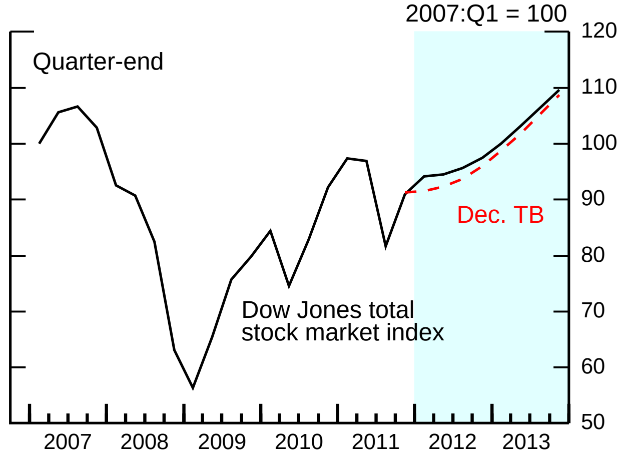
Exhibit 10

Baseline Financial Conditions

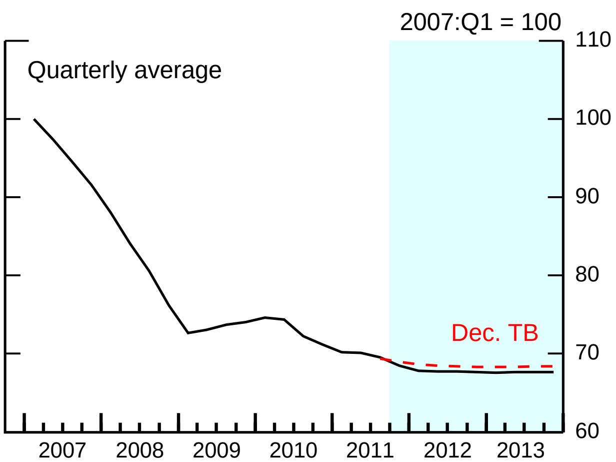
Long-term Interest Rates



Equity Prices

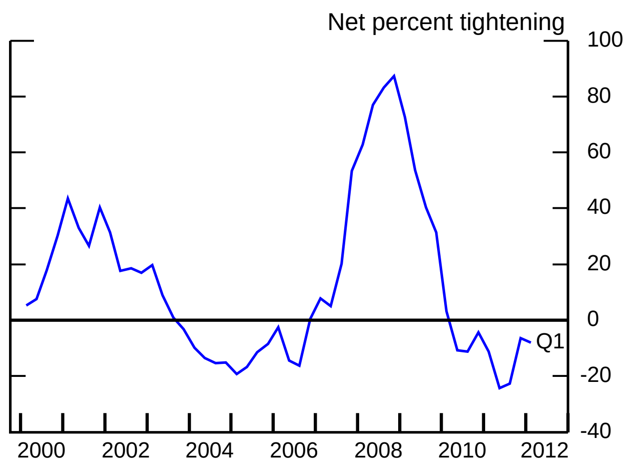


House Price Index



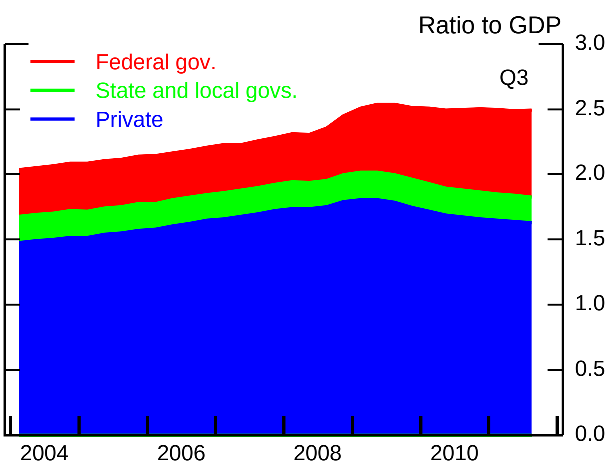
Source: CoreLogic.

Composite Index of Changes in Standards for Bank Loans

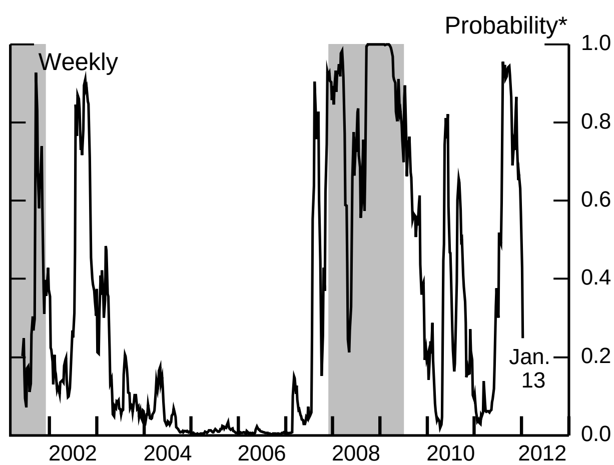


Source: Senior Loan Officer Opinion Survey.

Nonfinancial Sector Debt



Financial Market Stress

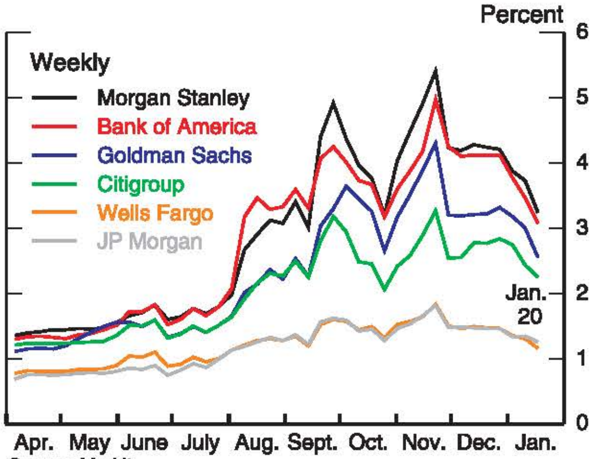


* Probability of being in a stress event.

Class II FOMC - Restricted (FR) Exhibit 11

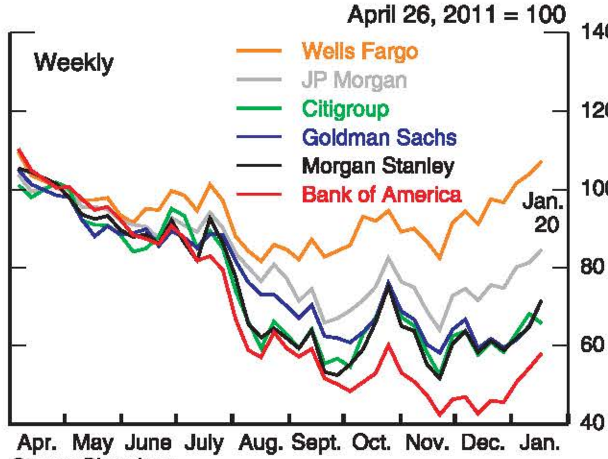
Conditions of Large Banking Institutions

5-year CDS Spreads



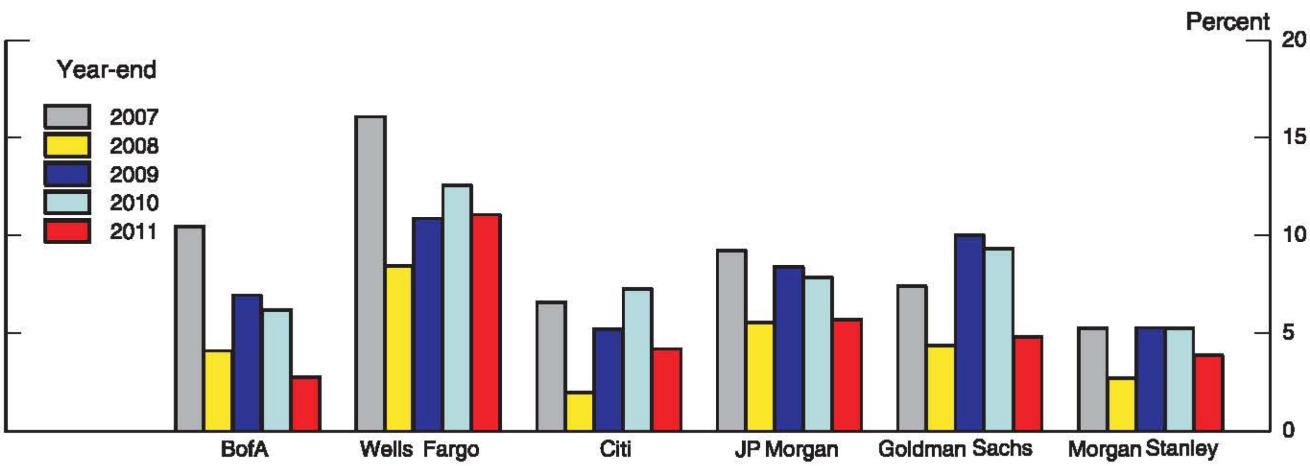
Source: Markit.

Stock Prices



Source: Bloomberg.

Market Equity Ratios

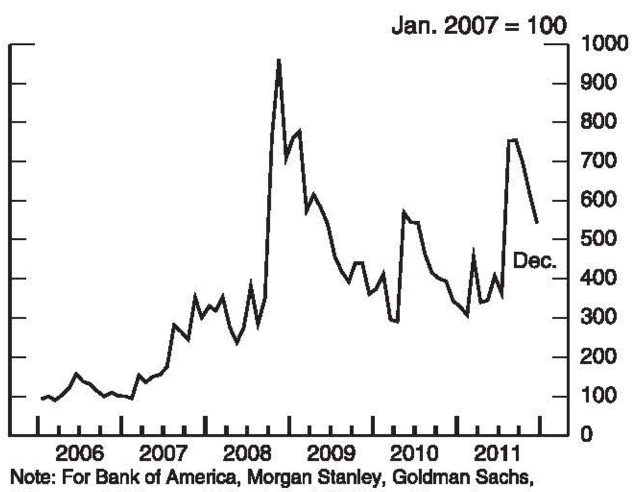


Note: Calculated as ratios of market value of common equity to estimated market value of assets.
Source: Bloomberg.

Conditional Value at Risk (CoVaR)

CoVaR is an estimate of an extreme loss to the financial system that would be expected to occur if a particular firm suffered from extreme distress.

CoVaR



Note: For Bank of America, Morgan Stanley, Goldman Sachs, Citigroup, JP Morgan, Wells Fargo, BONY, and State Street.

Class II FOMC - Restricted (FR) Exhibit 12

Risks to Financial Institutions

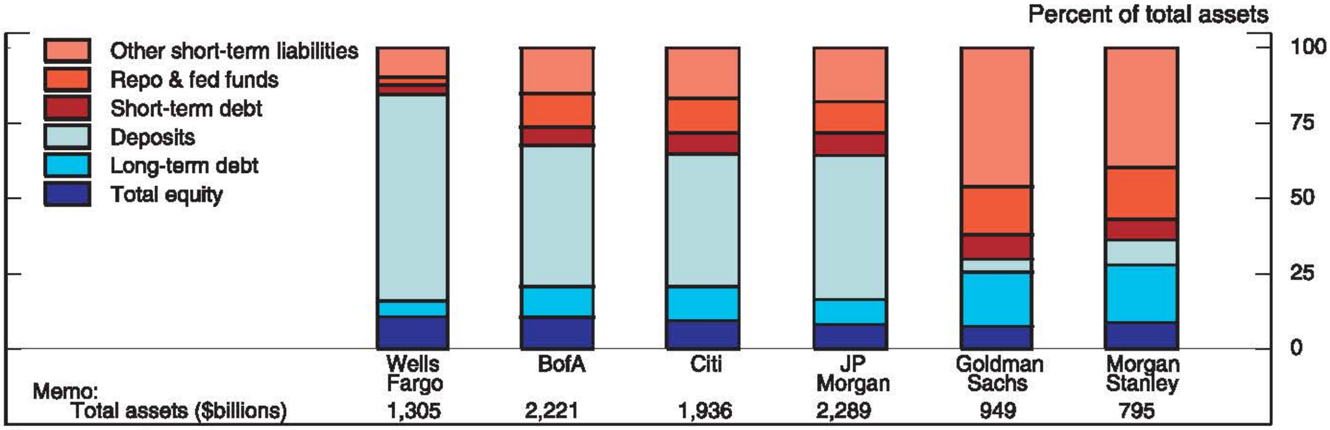
Alternative Scenario: Severe Euro Stress

- For Europe:
  - Soaring borrowing costs, plunging confidence, and a precipitous decline in GDP.
- For the U.S.:
  - A sharp contraction of GDP.
  - An increase in the unemployment rate to about 11¾ percent by the end of 2013.

Effects on Banks

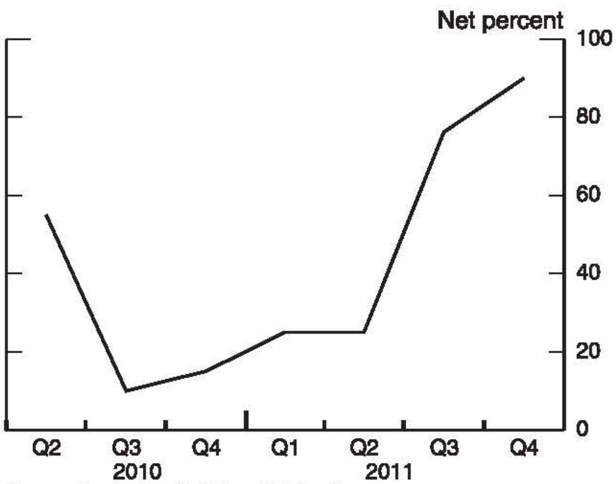
- Banks would experience substantial losses and weaker revenues.
- Aggregate ratio of Tier 1 common equity to risk weighted assets would fall sharply.
- Investors could doubt the solvency of large financial institutions.

Liabilities Structure of Large Bank Holding Companies



Source: FR Y-9C.

Dealers Reporting Increased Attention to Exposure to Other Dealers



Source: Senior Credit Officer Opinion Survey.

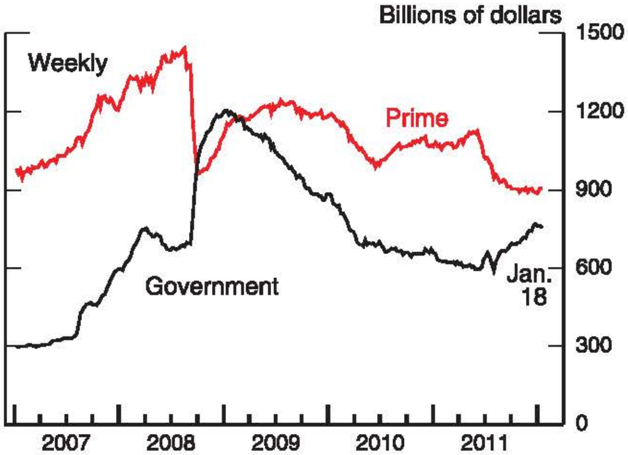
Vulnerabilities

- Multiple legal entities and different regulatory regimes pose significant challenges for policymakers.
- Differences in bankruptcy and resolution regimes add to uncertainty.
- Nonbank financial firms could be harmed.

Class II FOMC - Restricted (FR) Exhibit 13 (Last)

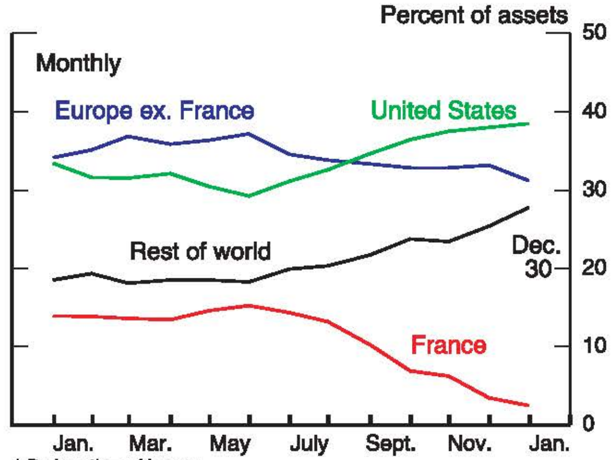
Money Market Funds and Policy Initiatives

Taxable Institutional Money Market Fund Assets



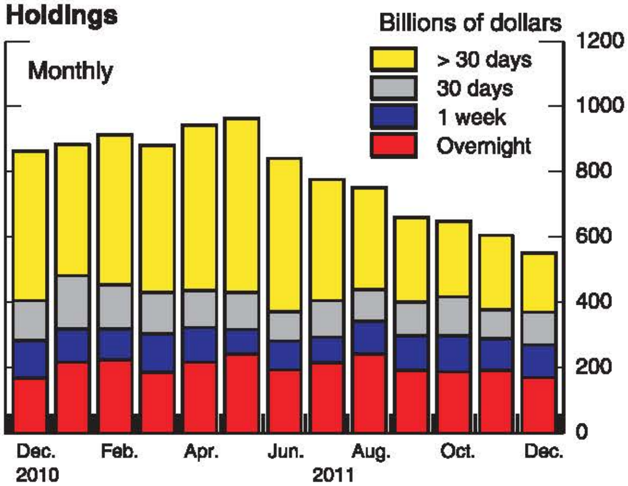
Source: Investment Company Institute.

Prime Money Fund Holdings*



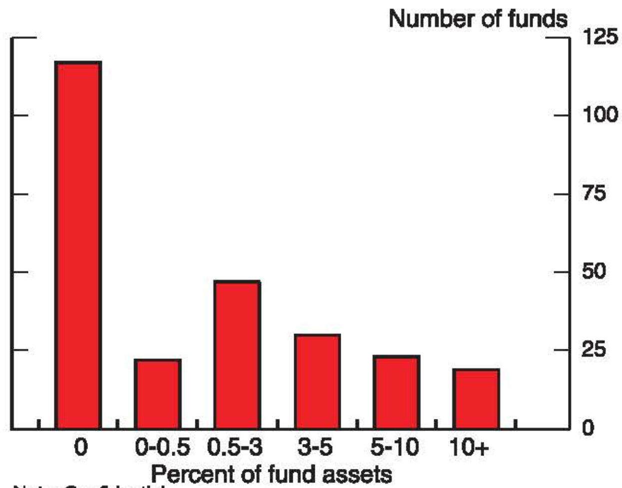
* By location of issuer.
Note: Confidential.
Source: SEC.

Maturity Distribution of Prime MMF European Holdings



Note: Confidential.
Source: SEC.

Exposures of Prime U.S. MMFs to France



Note: Confidential.
Source: SEC.

Policy Initiatives

- The SEC will issue a proposed rule aimed at reducing the susceptibility of money funds to runs.
  - Rules are expected to include a capital buffer and perhaps holdback provisions.
- Task Force on triparty repo reform is expected to issue a final report soon.
  - The industry has not eliminated the market's reliance on intraday credit from clearing banks.
- The FSOC has issued a proposed rule for the designation of systemically important nonbank financial institutions.
- The Comprehensive Capital Analysis and Review is underway.

Appendix 5: Materials used by Ms. Zickler

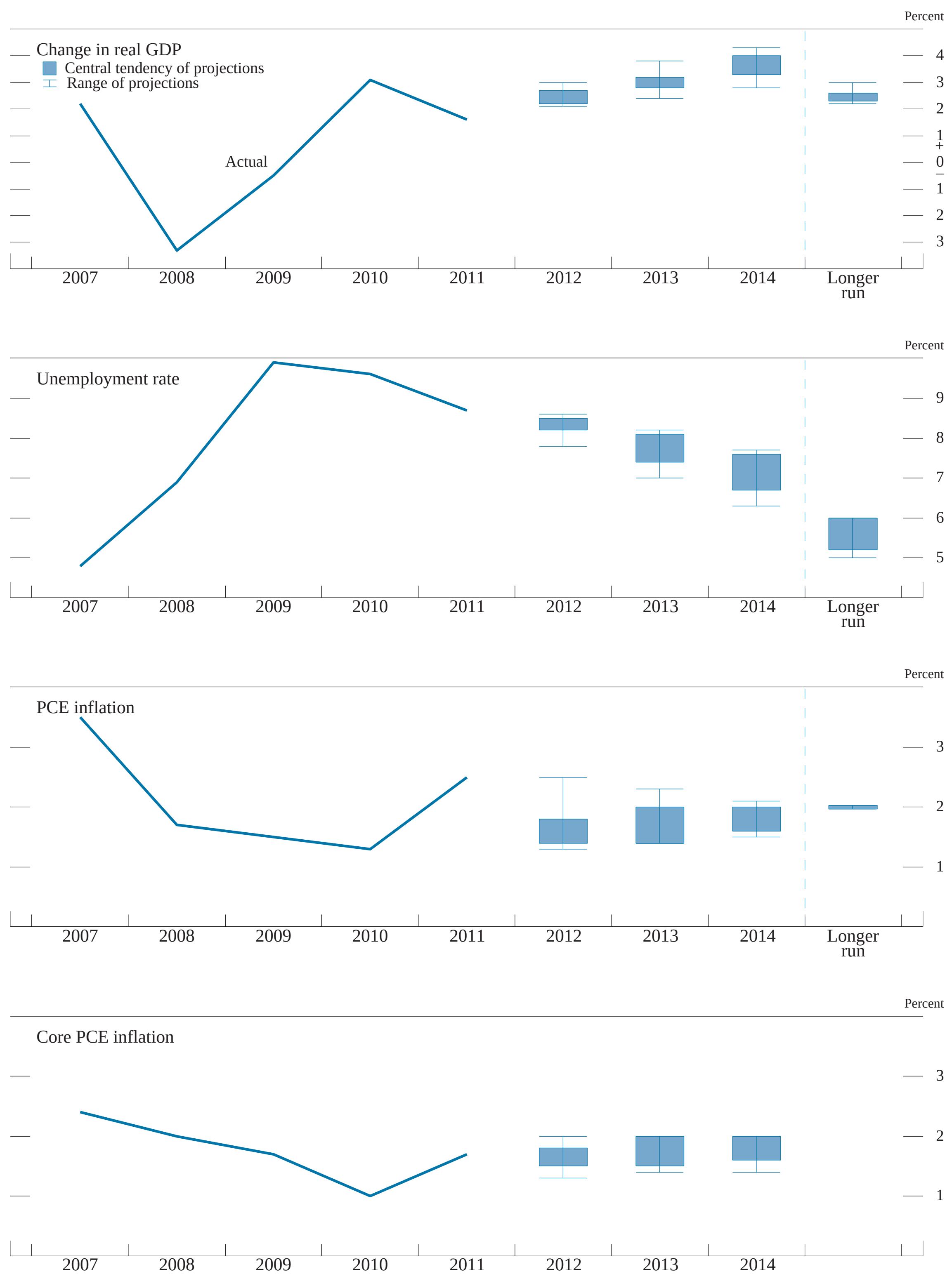
Class I FOMC – Restricted Controlled (FR)

Material for Briefing on

FOMC Participants' Economic and Policy Projections

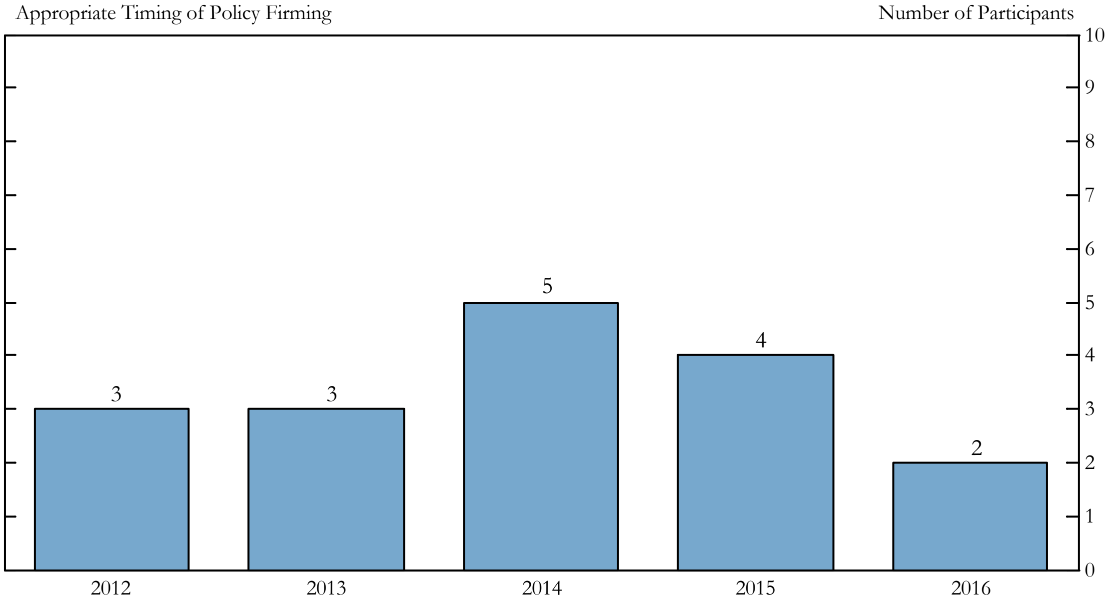
Joyce Zickler
January 24, 2012

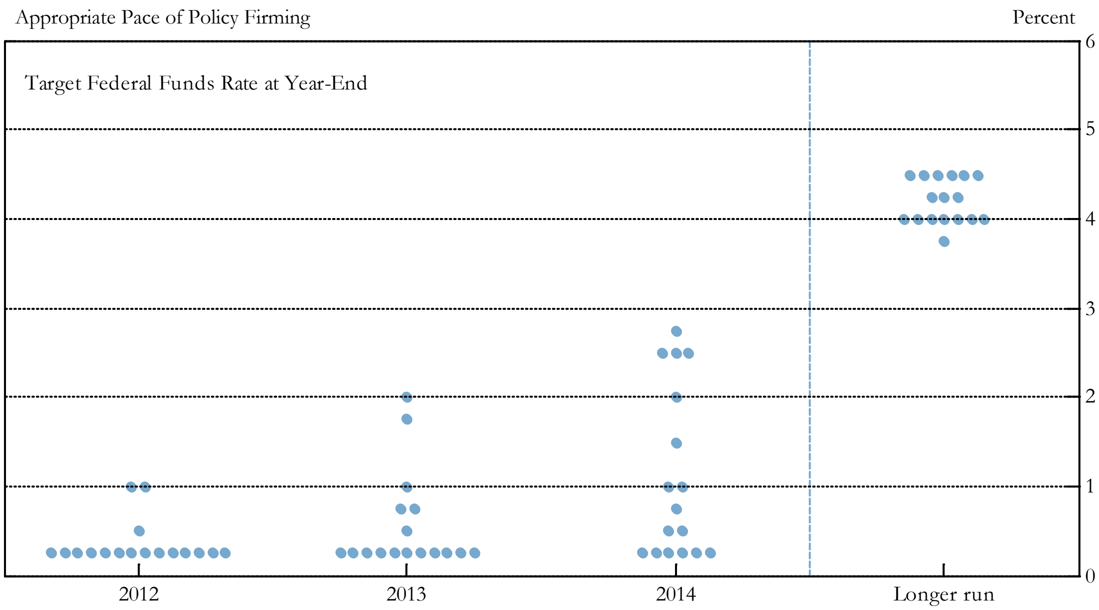
Exhibit 1. Central tendencies and ranges of economic projections, 2012–14 and over the longer run



NOTE: Actual fourth-quarter 2011 values for the change in real GDP and for both measures of PCE inflation have not yet been published by the Bureau of Economic Analysis; the plotted values of these variables for 2011 are the median estimates taken from the Federal Reserve Bank of New York's January survey of primary dealers.

Exhibit 2. Overview of FOMC participants' assessments of appropriate monetary policy





Note: In the upper panel, the height of each bar denotes the number of FOMC participants who judge that, under appropriate monetary policy and in the absence of further shocks to the economy, the first increase in the target federal funds rate from its current range of 0 to ¼ percent will occur in the specified calendar year. In the lower panel, each shaded circle indicates the value (rounded to the nearest ¼ percent) of an individual participant's judgment of the appropriate level of the target federal funds rate at the end of the specified calendar year or over the longer run.

Exhibit 3. Scatter Plot of Unemployment and PCE Inflation Projections in the Liftoff Year

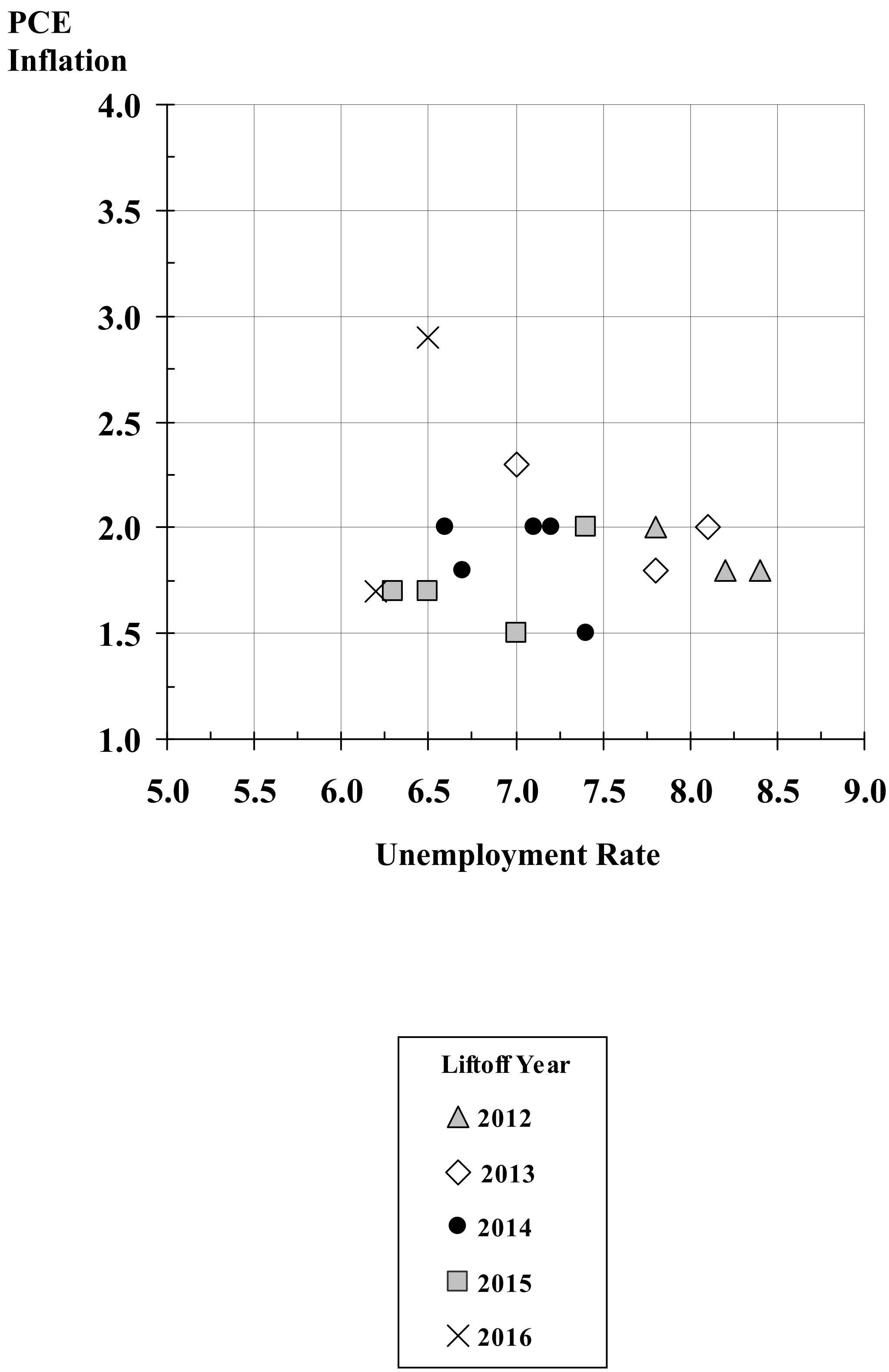


Exhibit 4. Economic projections for 2012-2014 and over the longer run (percent)

Change in real GDP

	2012	2013	2014	Longer run
Central Tendency	2.2 to 2.7	2.8 to 3.2	3.3 to 4.0	2.3 to 2.6
November projections	*2.5 to 2.9*	*3.0 to 3.5*	*3.0 to 3.9*	*2.4 to 2.7*
Range	2.1 to 3.0	2.4 to 3.8	2.8 to 4.3	2.2 to 3.0
November projections	*2.3 to 3.5*	*2.7 to 4.0*	*2.7 to 4.5*	*2.2 to 3.0*
Memo: Tealbook	2.1	2.4	3.6	2İ
November Tealbook	*2.5*	*3.2*	*3.9*	*2İ*

Unemployment rate

	2012	2013	2014	Longer run
Central Tendency	8.2 to 8.5	7.4 to 8.1	6.7 to 7.6	5.2 to 6.0
November projections	*8.5 to 8.7*	*7.8 to 8.2*	*6.8 to 7.7*	*5.2 to 6.0*
Range	7.8 to 8.6	7.0 to 8.2	6.3 to 7.7	5.0 to 6.0
November projections	*8.1 to 8.9*	*7.5 to 8.4*	*6.5 to 8.0*	*5.0 to 6.0*
Memo: Tealbook	8.6	8.2	7.8	5ı
November Tealbook	*8.6*	*8.1*	*7.3*	*5ı*

PCE inflation

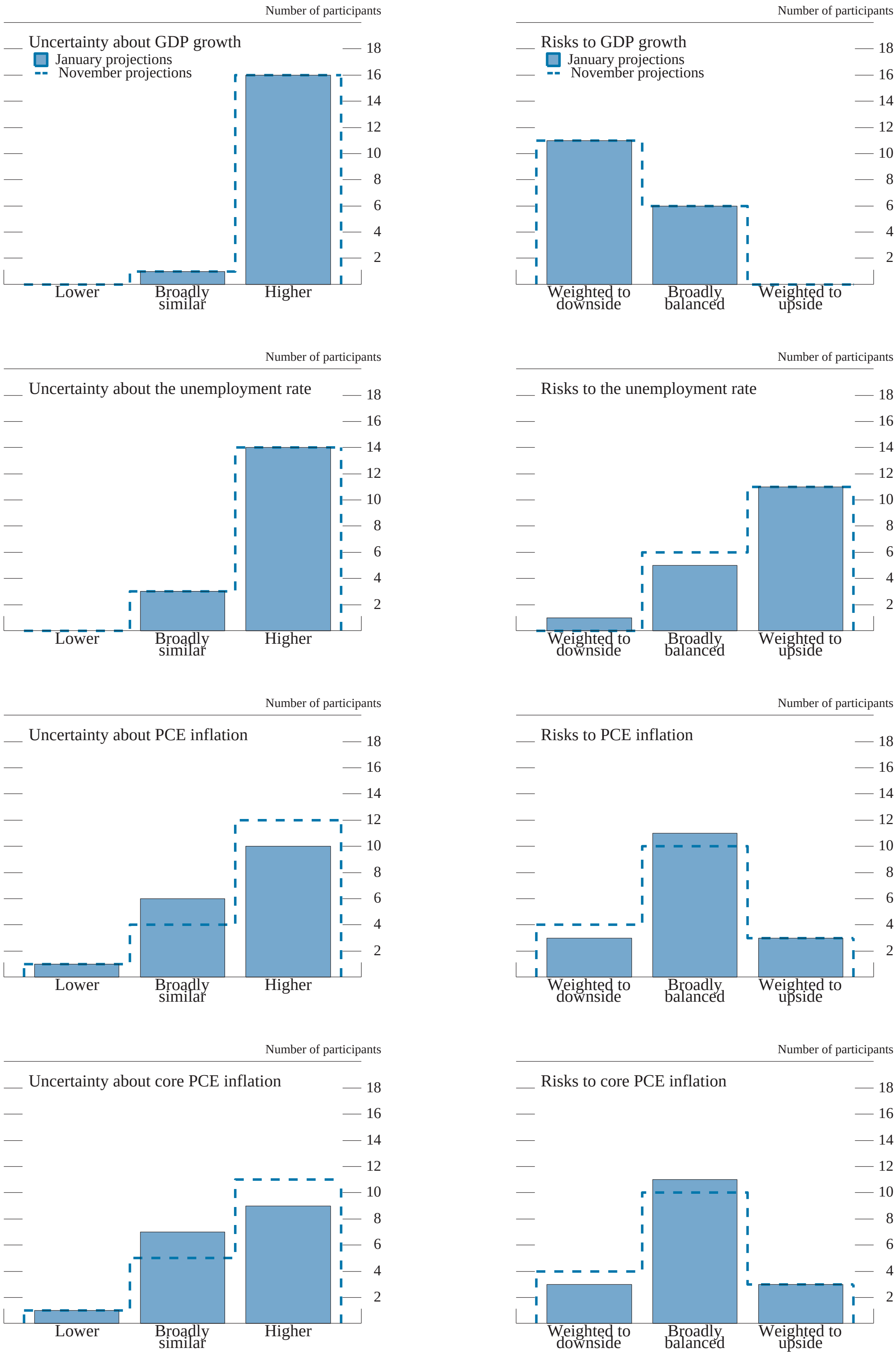
	2012	2013	2014	Longer run
Central Tendency	1.4 to 1.8	1.4 to 2.0	1.6 to 2.0	2.0
November projections	*1.4 to 2.0*	*1.5 to 2.0*	*1.5 to 2.0*	*1.7 to 2.0*
Range	1.3 to 2.5	1.4 to 2.3	1.5 to 2.1	2.0
November projections	*1.4 to 2.8*	*1.4 to 2.5*	*1.5 to 2.4*	*1.5 to 2.0*
Memo: Tealbook	1.4	1.3	1.5	2
November Tealbook	*1.4*	*1.4*	*1.5*	*2*

Core PCE inflation

	2012	2013	2014
Central Tendency	1.5 to 1.8	1.5 to 2.0	1.6 to 2.0
November projections	*1.5 to 2.0*	*1.4 to 1.9*	*1.5 to 2.0*
Range	1.3 to 2.0	1.4 to 2.0	1.4 to 2.0
November projections	*1.3 to 2.1*	*1.4 to 2.1*	*1.4 to 2.2*
Memo: Tealbook	1.5	1.4	1.4
November Tealbook	*1.5*	*1.4*	*1.4*

NOTE: The changes in real GDP and inflation are measured Q4/Q4

Exhibit 5. Uncertainty and risks in economic projections



Appendix 6: Materials used by Mr. English

Class I FOMC – Restricted (FR)

Material for

FOMC Briefing on Monetary Policy Alternatives

Bill English

January 24–25, 2012

December FOMC Statement

1. Information received since the Federal Open Market Committee met in November suggests that the economy has been expanding moderately, notwithstanding some apparent slowing in global growth. While indicators point to some improvement in overall labor market conditions, the unemployment rate remains elevated. Household spending has continued to advance, but business fixed investment appears to be increasing less rapidly and the housing sector remains depressed. Inflation has moderated since earlier in the year, and longer-term inflation expectations have remained stable.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee continues to expect a moderate pace of economic growth over coming quarters and consequently anticipates that the unemployment rate will decline only gradually toward levels that the Committee judges to be consistent with its dual mandate. Strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee also anticipates that inflation will settle, over coming quarters, at levels at or below those consistent with the Committee's dual mandate. However, the Committee will continue to pay close attention to the evolution of inflation and inflation expectations.

3. To support a stronger economic recovery and to help ensure that inflation, over time, is at levels consistent with the dual mandate, the Committee decided today to continue its program to extend the average maturity of its holdings of securities as announced in September. The Committee is maintaining its existing policies of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate.

4. The Committee also decided to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013.

5. The Committee will continue to assess the economic outlook in light of incoming information and is prepared to employ its tools to promote a stronger economic recovery in a context of price stability.

JANUARY FOMC STATEMENT—ALTERNATIVE A

1. Information received since the Federal Open Market Committee met in ~~November~~ **December** suggests that the economy has been expanding moderately, notwithstanding some ~~apparent~~ slowing in global growth. While indicators point to some **further** improvement in overall labor market conditions, the unemployment rate remains elevated. Household spending has continued to advance, but **growth in** business fixed investment ~~appears to be increasing less rapidly~~ **has slowed,** and the housing sector remains depressed. Inflation has ~~moderated since earlier in the year~~ **been subdued in recent months**, and longer-term inflation expectations have remained stable.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee ~~continues to~~ expect**s** ~~a moderate~~ **that, absent further policy action, the** pace of economic growth **would remain modest** over coming quarters and consequently anticipates that the unemployment rate ~~will~~ **would** decline only **very** gradually toward levels that the Committee judges to be consistent with its dual mandate. Strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee also anticipates that over coming quarters, inflation will ~~settle,~~ **run** at levels **[** at or **]** below those consistent with the Committee's dual mandate. ~~However, the Committee will continue to pay close attention to the evolution of inflation and inflation expectations~~.

3. To support a stronger economic recovery and to help ensure that inflation, over time, is at levels consistent with the dual mandate, the Committee decided today to **purchase up to an additional $500 billion of agency mortgage-backed securities by the end of January 2013**. **In addition, the Committee intends to** continue its program to extend the average maturity of its holdings of securities as announced in September. The Committee is **also** maintaining its existing policies of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. **These programs should put downward pressure on longer-term interest rates, provide support to mortgage markets, and help make broader financial conditions more accommodative.** The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate.

OR

3´. To support a stronger economic recovery and to help ensure that inflation, over time, is at levels consistent with the dual mandate, the Committee decided today to **purchase additional agency mortgage-backed securities, initially at a rate of $40 billion per month**. **The Committee will adjust the pace of purchases and determine the ultimate size of the program in light of the evolving economic outlook and as needed to foster its objectives. In addition, the Committee intends to** continue its program to extend the average maturity of its holdings of securities as announced in September. The Committee is **also** maintaining its existing policies of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. **These programs should put downward pressure on longer-term interest rates, provide support to mortgage markets, and help make broader financial conditions more accommodative.** ~~The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate.~~

4. The Committee also decided to keep the target range for the federal funds rate at 0 to ¼ percent and ~~currently~~ **now** anticipates that ~~economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant~~ **this** exceptionally low ~~levels~~ **range** for the federal funds rate ~~at least through mid-2013~~ **will be appropriate at least as long as the unemployment rate exceeds [6½] percent, the inflation rate (as measured by the price index for personal consumption expenditures) at a horizon of one to two years is projected to be either below or close to [2] percent, and longer-term inflation expectations continue to be well anchored**. **On the basis of currently available information, the Committee expects these conditions to prevail at least through late 2014.**

5. The Committee will ~~continue to assess the economic outlook in light of incoming information and is prepared to~~ employ its tools **as needed** to promote a stronger economic recovery in a context of price stability.

January FOMC Statement—Alternative B

1. Information received since the Federal Open Market Committee met in ~~November~~ **December** suggests that the economy has been expanding moderately, notwithstanding some ~~apparent~~ slowing in global growth. While indicators point to some **further** improvement in overall labor market conditions, the unemployment rate remains elevated. Household spending has continued to advance, but **growth in** business fixed investment ~~appears to be increasing less rapidly~~ **has slowed,** and the housing sector remains depressed. Inflation has ~~moderated since earlier in the year~~ **been subdued in recent months**, and longer-term inflation expectations have remained stable.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee ~~continues to~~ expect**s** ~~a moderate pace of~~ economic growth over coming quarters **to be modest** and consequently anticipates that the unemployment rate will ~~decline only gradually~~ **make only slow progress** toward levels that the Committee judges to be consistent with its dual mandate. Strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee also anticipates that over coming quarters, inflation will ~~settle,~~ **run** at levels at or below those consistent with the Committee's dual mandate. **[** However, the Committee will continue to pay close attention to the evolution of inflation and inflation expectations. **]**

3. To support a stronger economic recovery and to help ensure that inflation, over time, is at levels consistent with the dual mandate, **the Committee intends to maintain a highly accommodative stance for monetary policy**. **In particular,** the Committee ~~also~~ decided **today** to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that ~~economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant~~ **this** exceptionally low ~~levels~~ **range** for the federal funds rate ~~at least through mid-2013~~ **will be appropriate at least as long as the unemployment rate exceeds [7] percent, the inflation rate (as measured by the price index for personal consumption expenditures) at a horizon of one to two years is projected to be either below or close to [2] percent, and longer-term inflation expectations continue to be well anchored**. **On the basis of currently available information, the Committee expects these conditions to prevail at least through late 2014.**

OR

3′. To support a stronger economic recovery and to help ensure that inflation, over time, is at levels consistent with the dual mandate, **the Committee expects to maintain a highly accommodative stance for monetary policy**. **In particular,** the Committee ~~also~~ decided **today** to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant exceptionally low levels for the federal funds rate at least through ~~mid-2013~~ **late 2014**.

4. The Committee **also** decided ~~today~~ to continue its program to extend the average maturity of its holdings of securities as announced in September. The Committee is maintaining its existing policies of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate **to promote a stronger economic recovery in a context of price stability**.

5. ~~The Committee will continue to assess the economic outlook in light of incoming information and is prepared to employ its tools to promote a stronger economic recovery in a context of price stability.~~

JANUARY FOMC STATEMENT—ALTERNATIVE C

1. Information received since the Federal Open Market Committee met in ~~November~~ **December** suggests that the econom**ic** ~~has been expanding moderately, notwithstanding some apparent slowing in global growth~~ **recovery has strengthened somewhat**. ~~While indicators point to some improvement in overall labor market conditions,~~ **Although** the unemployment rate remains elevated**, it has declined recently, and employment continues to increase**. Household spending has ~~continued to~~ advance**d further**, ~~but~~ **and** business fixed investment ~~appears to be increasing less rapidly and~~ **has continued to expand, but** the housing sector remains depressed. Inflation has moderated ~~since earlier in the~~ **somewhat since the first half of last** year, and longer-term inflation expectations have remained stable.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee ~~continues to~~ expect**s** a ~~moderate~~ **firming in the** pace of economic growth over coming quarters and consequently anticipates that the unemployment rate will decline ~~only~~ gradually toward levels that the Committee judges to be consistent with its dual mandate. ~~Strains in global financial markets continue to pose significant downside risks to the economic outlook.~~ The Committee also anticipates that over coming quarters, inflation will ~~settle,~~ **run** at levels ~~at or below those~~ consistent with the Committee's dual mandate. ~~However,~~ The Committee will continue to pay close attention to the evolution of inflation and inflation expectations.

3. To support ~~a stronger~~ **the** economic recovery ~~and to help~~ **while** ensur**ing** that inflation, over time, is at levels **that are** consistent with the dual mandate, the Committee decided today to ~~continue its~~ **reduce by half the size of the** program to extend the average maturity of its holdings of securities as announced in September **and to complete the program by the end of February**. The Committee is maintaining its existing policies of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate.

4. The Committee also decided to keep the target range for the federal funds rate at 0 to ¼ percent and ~~currently~~ **now** anticipates that economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant exceptionally low levels for the federal funds rate ~~at least through mid-2013~~ **for an extended period**.

5. The Committee will ~~continue to~~ assess the economic outlook in light of incoming information and is prepared to employ its tools **as appropriate** to promote ~~a stronger economic recovery in a context of~~ **its objectives of maximum employment and** price stability.

DECEMBER 2011 DIRECTIVE

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to continue the maturity extension program it began in September to purchase, by the end of June 2012, Treasury securities with remaining maturities of approximately 6 years to 30 years with a total face value of $400 billion, and to sell Treasury securities with remaining maturities of 3 years or less with a total face value of $400 billion. The Committee also directs the Desk to maintain its existing policies of rolling over maturing Treasury securities into new issues and of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities in order to maintain the total face value of domestic securities at approximately $2.6 trillion. The Committee directs the Desk to engage in dollar roll transactions as necessary to facilitate settlement of the Federal Reserve’s agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System’s balance sheet that could affect the attainment over time of the Committee’s objectives of maximum employment and price stability.

JANUARY 2012 DIRECTIVE—ALTERNATIVE A

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to continue the maturity extension program it began in September to purchase, by the end of June 2012, Treasury securities with remaining maturities of approximately 6 years to 30 years with a total face value of $400 billion, and to sell Treasury securities with remaining maturities of 3 years or less with a total face value of $400 billion. **[The Committee also directs the Desk to execute purchases of agency mortgage-backed securities by the end of January 2013 in order to increase the total face value of domestic securities held in the System Open Market Account to approximately $3.1 trillion. | The Committee also directs the Desk to execute purchases of agency mortgage-backed securities in order to increase the total face value of domestic securities held in the System Open Market Account by approximately $40 billion per month.]** The Committee also directs the Desk to maintain its existing policies of rolling over maturing Treasury securities into new issues and of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities ~~in order to maintain the total face value of domestic securities at approximately $2.6 trillion~~. The Committee directs the Desk to engage in dollar roll **and coupon swap** transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

JANUARY 2012 DIRECTIVE—ALTERNATIVE B

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to continue the maturity extension program it began in September to purchase, by the end of June 2012, Treasury securities with remaining maturities of approximately 6 years to 30 years with a total face value of $400 billion, and to sell Treasury securities with remaining maturities of 3 years or less with a total face value of $400 billion. The Committee also directs the Desk to maintain its existing policies of rolling over maturing Treasury securities into new issues and of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities in order to maintain the total face value of domestic securities at approximately $2.6 trillion. The Committee directs the Desk to engage in dollar roll transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

JANUARY 2012 DIRECTIVE—ALTERNATIVE C

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to ~~continue~~ **modify** the maturity extension program it began in September **so as** to purchase, by the end of ~~June~~ **February** 2012, Treasury securities with remaining maturities of approximately 6 years to 30 years with a total face value of ~~$400~~ **$200** billion, and to sell Treasury securities with remaining maturities of 3 years or less with a total face value of ~~$400~~ **$200** billion. The Committee also directs the Desk to maintain its existing policies of rolling over maturing Treasury securities into new issues and of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities in order to maintain the total face value of domestic securities at approximately $2.6 trillion. The Committee directs the Desk to engage in dollar roll transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.