January 13, 2010

Financial Highlights

Federal Reserve

Balance Sheet 1

Agency Debt and MBS Purchases 2

Commercial Paper

Issuance 3

Spreads over Treasuries 3

Broad Financial Market Indicators

LIBOR Spreads and Treasury Yields 4

Credit Default Swap Indices (ABX and CMBX) 5

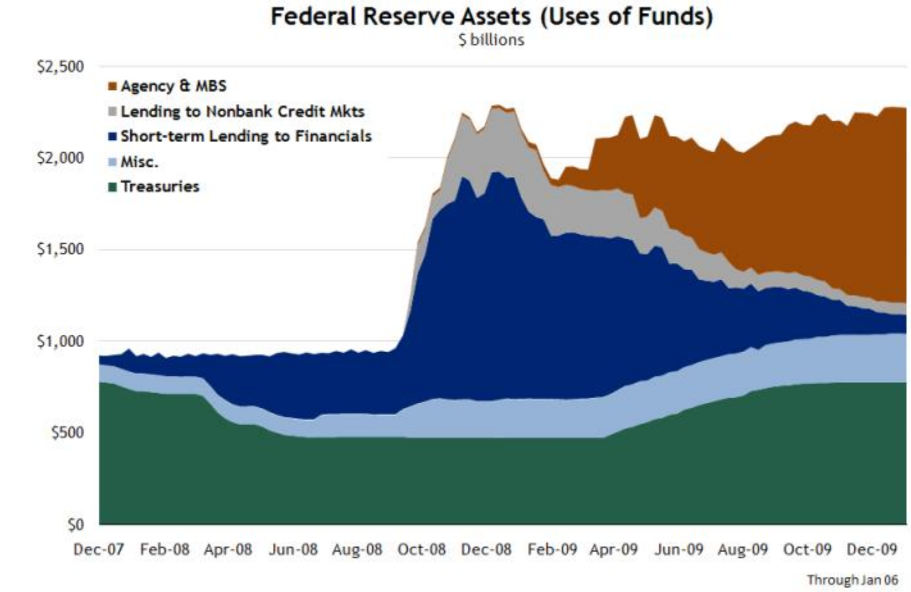
Equity Indices 6

Stock and Bond Market Volatility (VIX and MOVE) 6

Federal Reserve

Summary

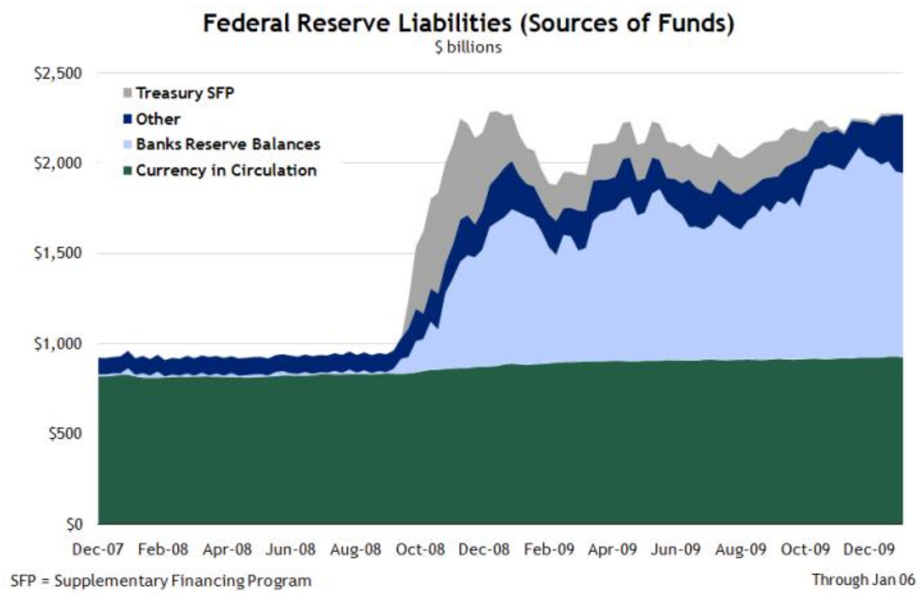
The balance sheet was essentially unchanged between Dec. 30, 2009, and Jan. 6, 2010, remaining at $2.28 trillion.



Source: Federal Reserve Board

- The balance sheet contracted $2.8 billion.
- At the December FOMC meeting, it was agreed to continue the practice of not reinvesting agency and MBS proceeds obtained from maturing agency debt and MBS prepayments, thereby allowing that portion of the balance sheet to decline once the purchases are complete.

On the liabilities side, very little changed. Bank reserves decreased by $3.4 billion and currency in circulation decreased by $5.2 billion, offset somewhat by an increase of $5.7 billion in other liabilities.

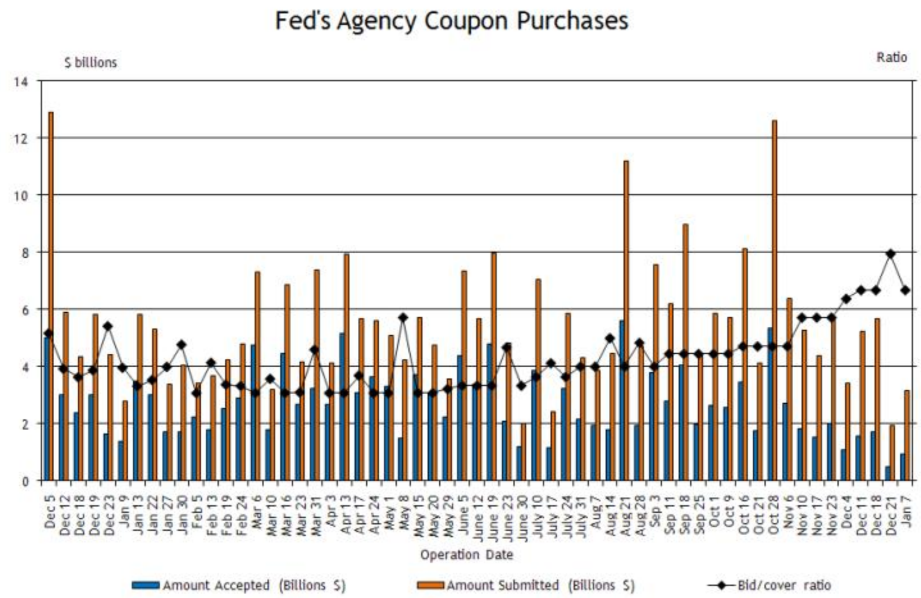


Source: Federal Reserve Board

Assets: Lending to nonbanks—TALF, CPFF, AMLF, and MMIFF; Short-term lending to financials—discount window, TAF, currency swaps, PDCF, and repos; Misc.—Maiden Lanes I, II, and III, credit to AIG, and other Fed assets. **Liabilities**: Other—Reverse repos, Treasury cash holdings, and deposits with Federal Reserve Banks other than reserve balances and excluding the Supplementary Financing Program.

Summary

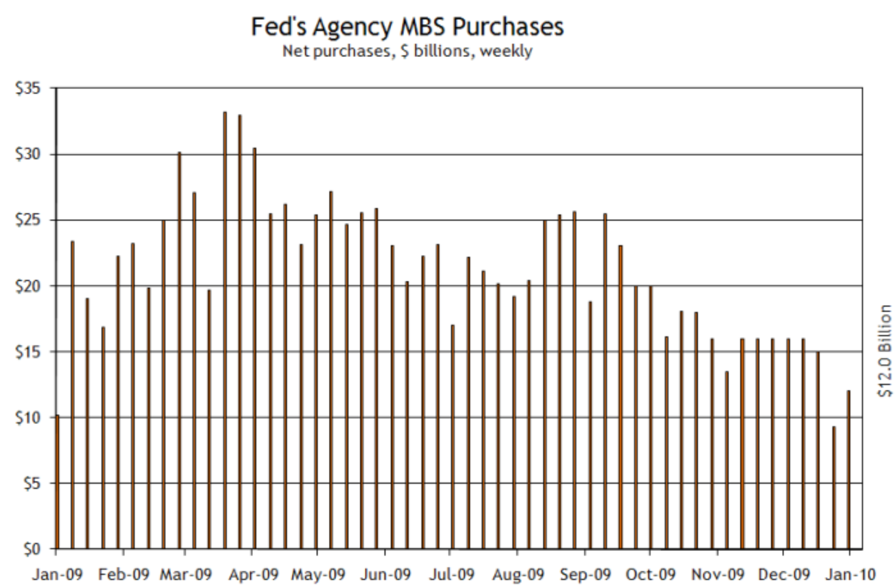
Bid-to-cover ratios for Fed purchases of agency debt have risen to record highs.



Source: NY Fed

- The Fed has completed $160.9 billion of its $175 billion agency debt purchase program through January 13 (making it 92% complete). The last purchase, on January 7, was made for $950 million and had a bid-to-cover (B/C) ratio of 3.34.
- The last six purchases have had an average B/C ratio of 3.43, a significant increase over the 2.0 average in the program's history.

The weekly net purchases of agency MBS have drifted lower in recently as the program nears expiration.



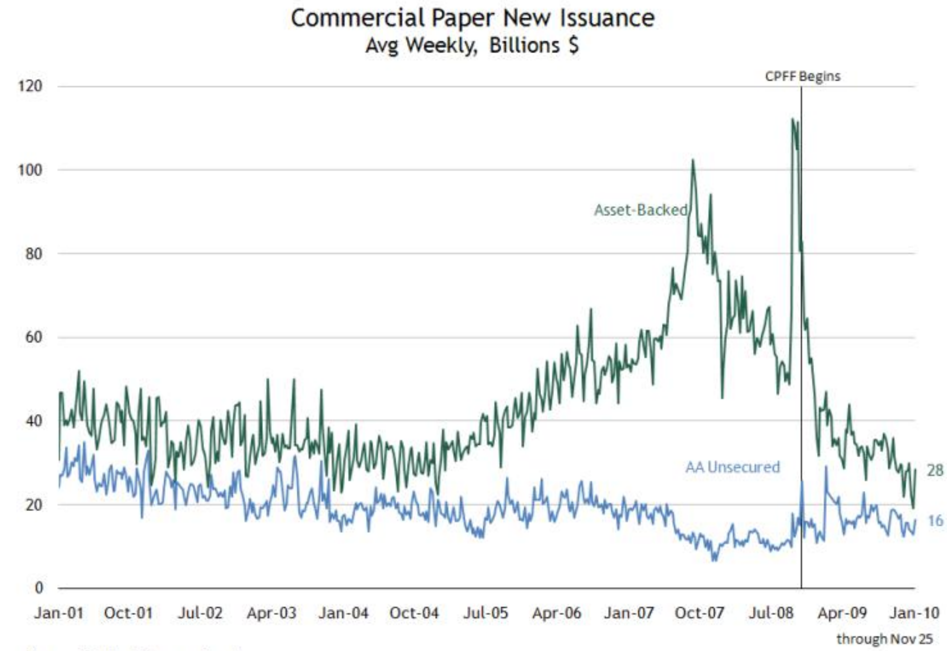
Source: NY Fed

- The Fed purchased a net total of $12 billion of agency-backed MBS through the week of January 6. This brings its total purchases up to $1.126 trillion, and by the end of the first quarter 2010 the Fed will have purchased $1.25 trillion (thus, it is 90% complete).
- In the first nine months of the program (January-September 2009), the Fed's average weekly purchase of MBS was $23.3 billion. Since October 2009, however, it has declined to $15.2 billion per week, and the Fed needs to purchase only about $11.2 billion per week through March 2010 to reach its goal.

Commercial Paper

Summary

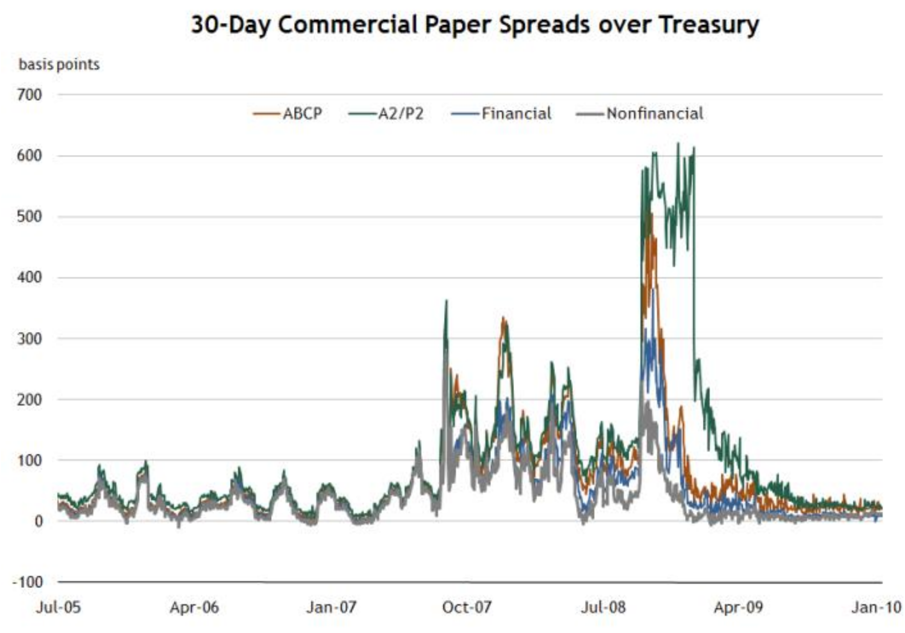
New issues of commercial paper have stabilized for unsecured paper but continues to decline for asset-backed paper.



Source: Federal Reserve Board

Thirty-day commercial paper spreads over Treasuries are have returned to more normal levels.

During the financial crisis, commercial paper rates spiked while Treasuries dropped, increasing the spread. Currently, both commercial paper rates and Treasuries are at very low levels.



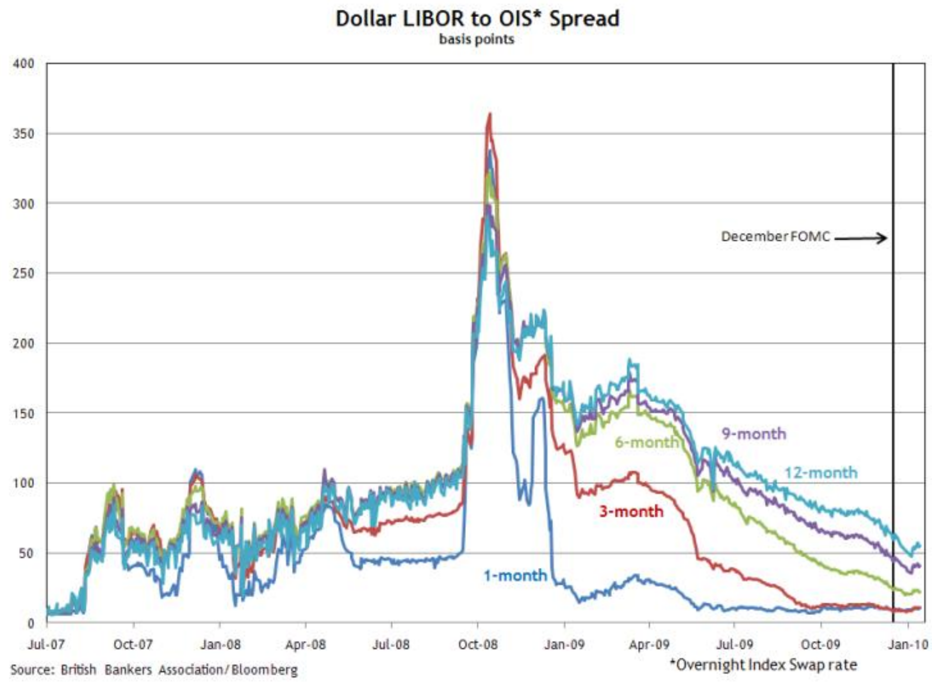
Source: Federal Reserve Board

- As of January 11, financial commercial paper rates were 9 basis points (bps) more than Treasuries, nonfinancial rates were 13 bps over Treasuries, asset-backed rates were 22 bps over Treasuries, and A2/P2 were 22 bps over Treasuries.
- The 30-day Treasury rate was .01%, and 30-day commercial paper rates ranged from .10% to .23%

Broad Financial Market Indicators

Summary

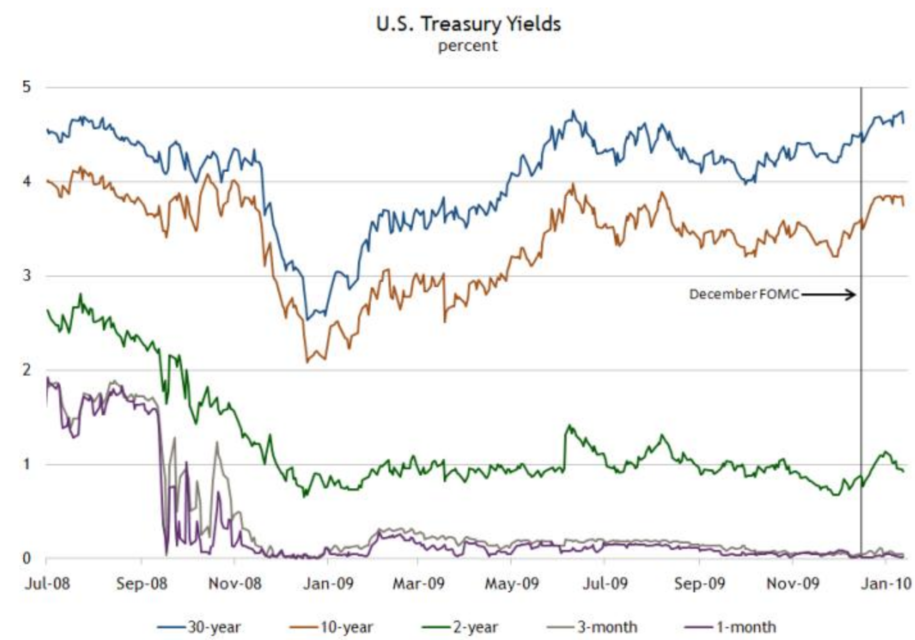
LIBOR to OIS spreads are up slightly for shorter horizons but have increased further out since the December FOMC meeting.



Source: Bloomberg and British Bankers' Association

- The one-month and three-month Dollar LIBOR to OIS spreads are up 1 bps to 10.5 and 10.7 bps, respectively, since the December FOMC meeting. But the 6-, 9-, and 12-month spreads have decreased 3, 6, and 9 bps, respectively.

Treasury yields have moved higher in the same period.



Source: Bloomberg

- Since the December FOMC, longer-dated Treasury yields have moved higher: Through January 12, the 30-year bond is up 10 bps to 4.62%, the 10-year moved 13 bps higher to 3.74%, and the two-year note rose up 7 bps to 0.92%.

Broad Financial Market Indicators

Summary

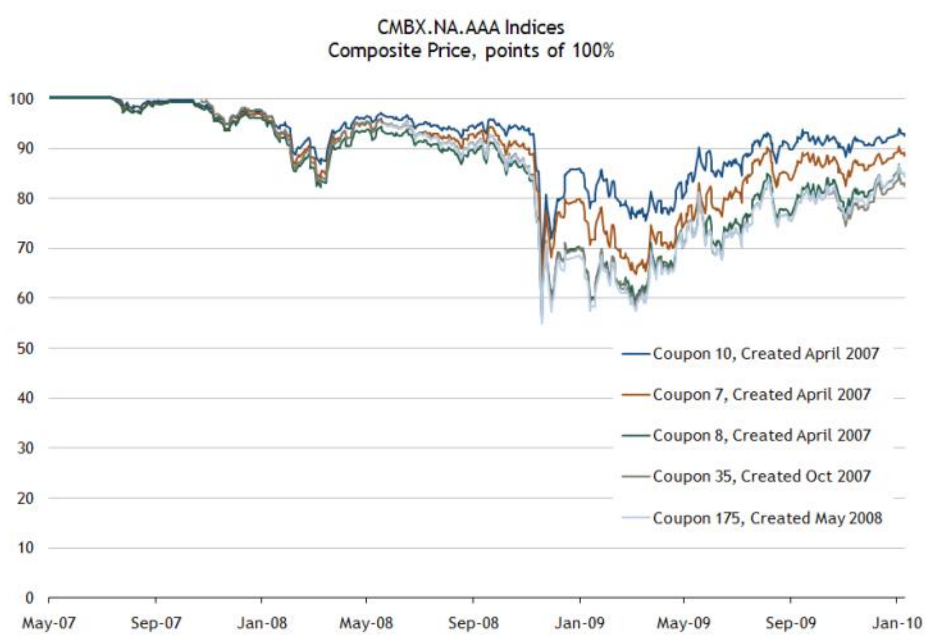
The ABX for all vintages of debt continues to trend upward.

The value of home equity credit default swaps as an investment continues to increase, and on the other side of the agreement, the cost to insure against default continues to decline.

Source: Markit Group Limited/Haver Analytics

- The 2007-2 vintage has increased 48% since its low, the 2007-1 has increased 49%, the 2006-2 has increased 63%, and the 2006-1 has increased 38%.

The same is true for the value of commercial MBS credit default swaps as all vintages of the CMBX.NA.AAA continue to increase.

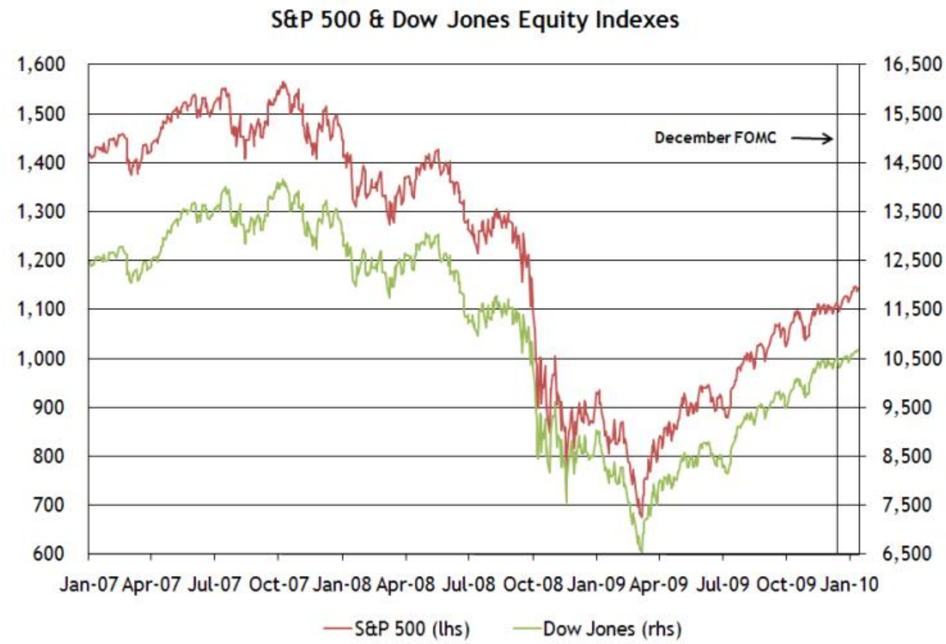


Source: Markit Group Limited/Haver Analytics

Broad Financial Market Indicators

Summary

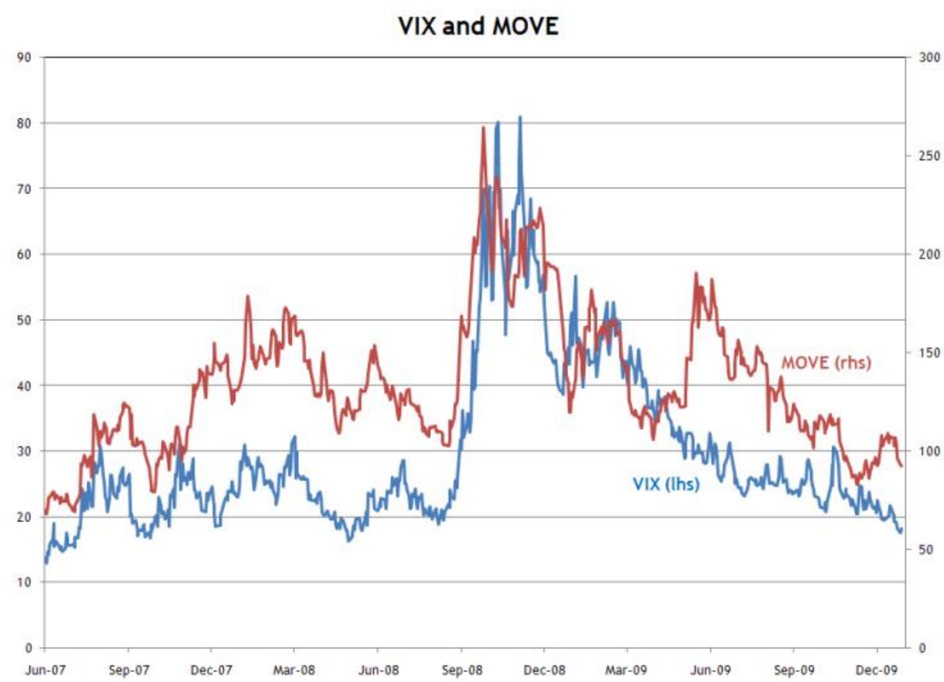
Equity markets continue to trend up...



Source: Bloomberg

- The S&P 500 and the Dow Jones Industrial Average (DJIA) have improved since the last FOMC meeting concluded on Dec. 16, with the S&P 500 index up 3.1% and its financials subindex 6.3% higher.

...and volatility indexes show further stabilization in equity and bond markets.



Source: Merrill Lynch, CBOE

- The Chicago Board of Exchange's Volatility Index (VIX), measuring the option-implied volatility of the S&P 500 index, has reached its lowest levels since May 2008, with a reading of 18.25 as of January 12, down 11.2% since the last FOMC meeting on December 16.
- The Merrill Lynch Option Volatility Expectations (MOVE), a measure of bond market volatility, has similarly showed stabilization with a level of 92.7 as of January 12, down from 94.4 (1.8%) since the last FOMC meeting.