FEDERAL RESERVE BANK of ATLANTA

May 19, 2010

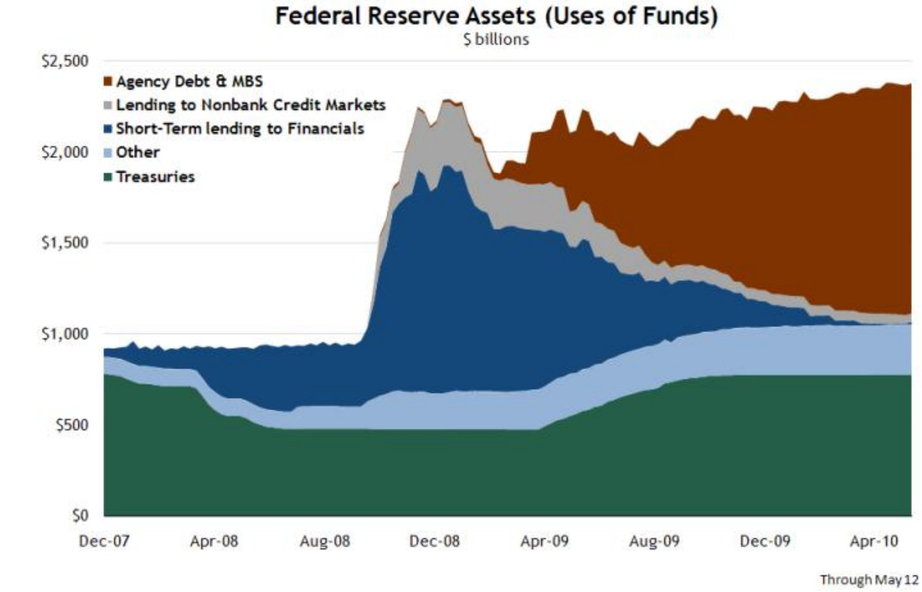
Financial Highlights

Federal Reserve

Summary

The balance sheet expanded $10 billion for the week ended May 12.

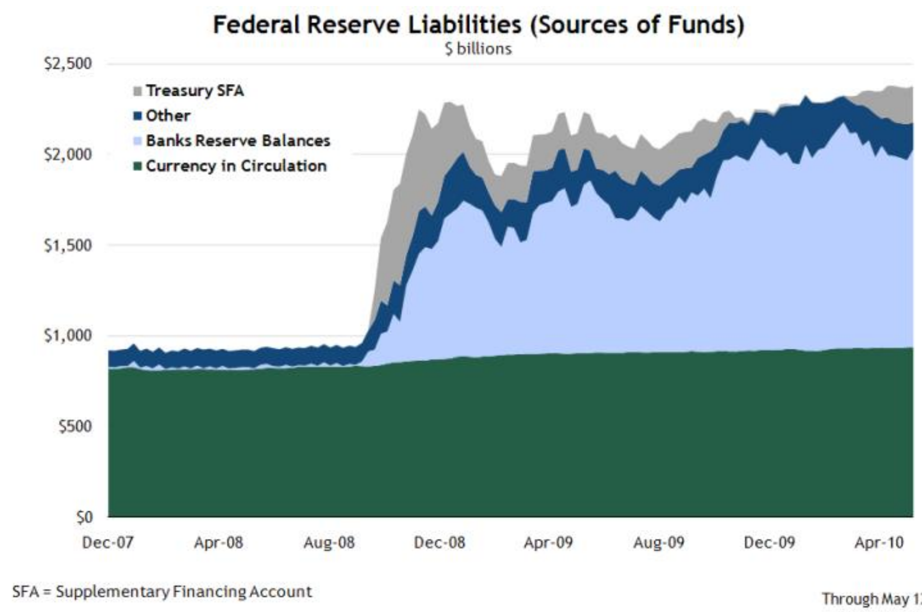
The Federal Reserve has restarted currency swaps with foreign central banks due to increased demand for dollars abroad, specifically Europe.



Source: Federal Reserve Board

- Currency swaps were the biggest contributor to the $9.2 billion increase in the balance sheet, all of which was the result of exchanges with the European Central Bank.
- The amount of MBS on the balance sheet increased by $940 million. The MBS purchases program ended in March, but MBS is expected to continue to increase the size of the balance sheet as purchases take time to settle. For more information about settlement time of MBS, see the New York Fed's Web site.

Bank reserve balances increased $60 billion and Other liabilities fell $51 billion, mostly due to a decline in treasury deposits with federal reserve banks.



Source: Federal Reserve Board

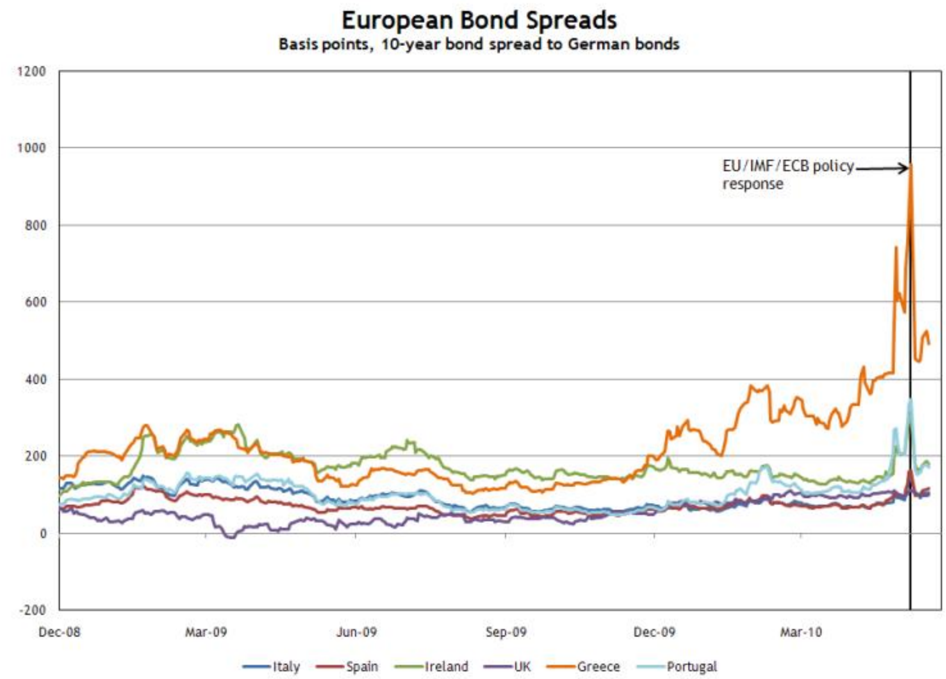
Assets: Lending to nonbanks—TALF, CPFF, AMLF, and MMIFF; Short-term lending to financials—discount window, TAF, currency swaps, PDCF, and repos; Misc.—Maiden Lanes I, II, and III, credit to AIG, and other Fed assets. **Liabilities**: Other—Reverse repos, Treasury cash holdings, and deposits with Federal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

European Debt

Summary

Peripheral euro area bond spreads (over German bonds) narrowed sharply last week following the unveiling of the €750 billion EU/IMF package, but have since widened a bit: 15 basis points (bps) to as much as 45 bps (in the case of Greece).

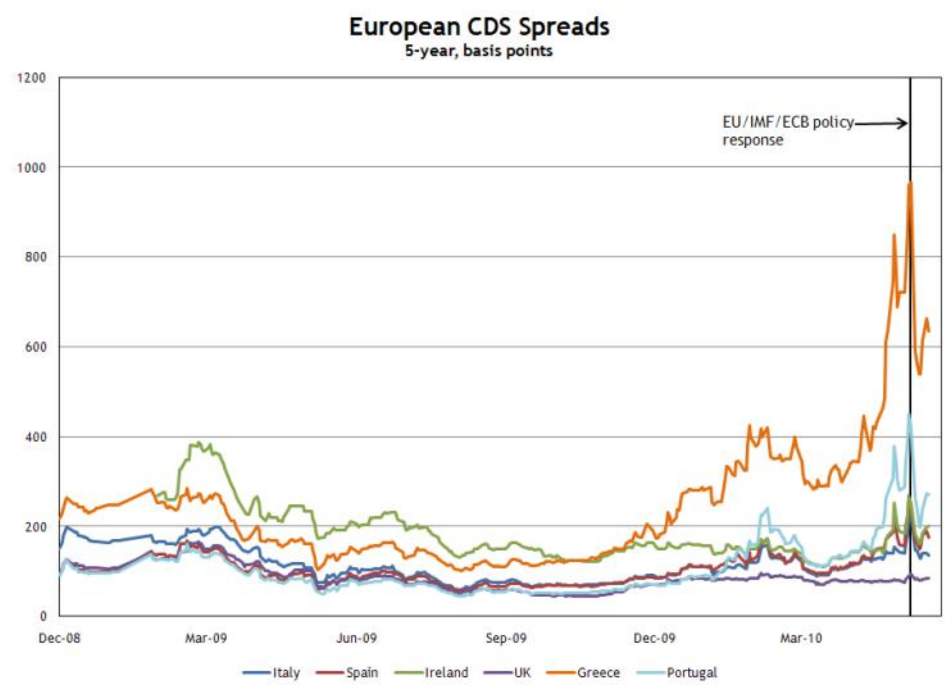
In addition to the €750 billion EU/IMF package, the European Central Bank purchased €16.5 billion of sovereign debt as part of its Securities Market Program.



Source: Bloomberg

- After declining early last week, sovereign debt spreads have begun widening for peripheral euro area countries. As of May 18, the 10-year bond spread stands at 491 basis points (bps) for Greece, 179 bps for Ireland, 171 bps for Portugal, and 115 bps for Spain.

Similarly, CDS spreads have risen.

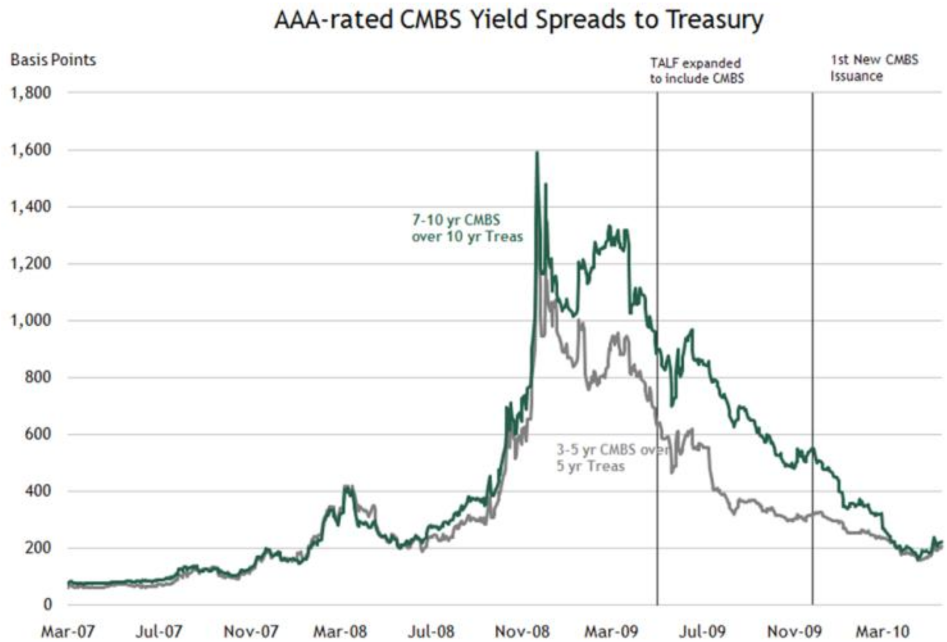


Source: Bloomberg

Commercial Mortgage Backed Securities

Summary

CMBS spreads to Treasuries have widened recently.

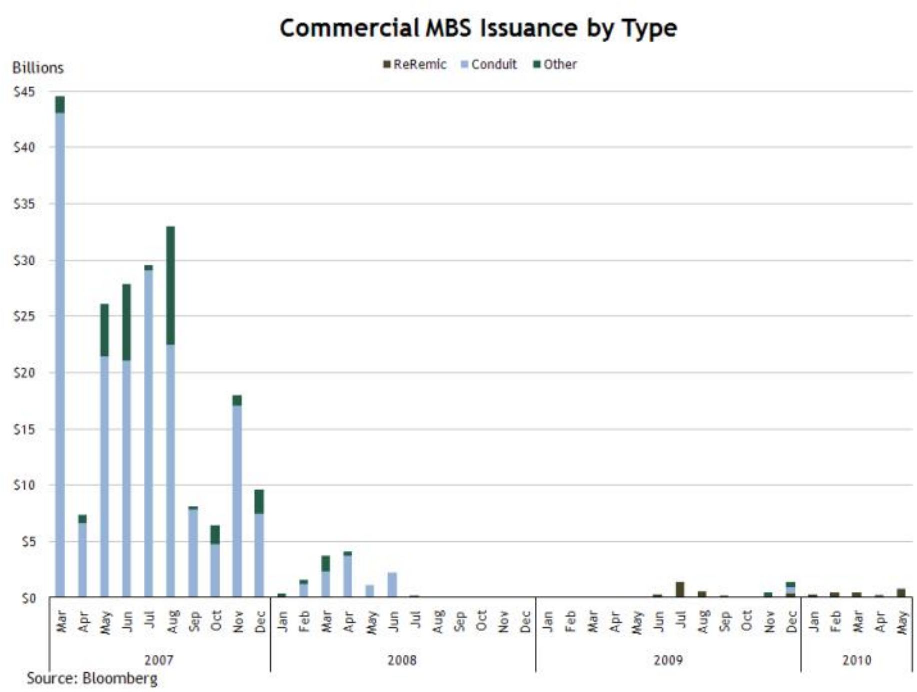


Source: Merrill Lynch/Bloomberg

- Between April 15 and May 18, three-to-five-year CMBS to five-year Treasury spreads widened by 51 bps, and seven-to-10-year CMBS to 10-year Treasury spreads widened by 61 bps.

Issuance of CMBS is still depressed, re-REMICs continue to occur as downgrade risk remains.

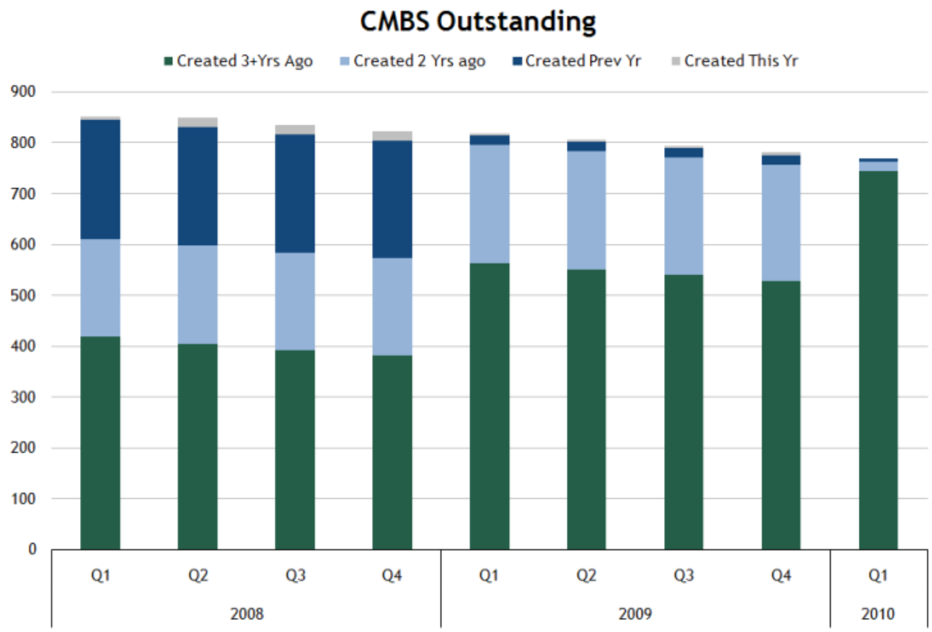
Approximately $440 million in new CMBS has been created so far this year.



Commercial Mortgage Backed Securities

Summary

Almost all of the currently outstanding CMBS was created in or before 2007.

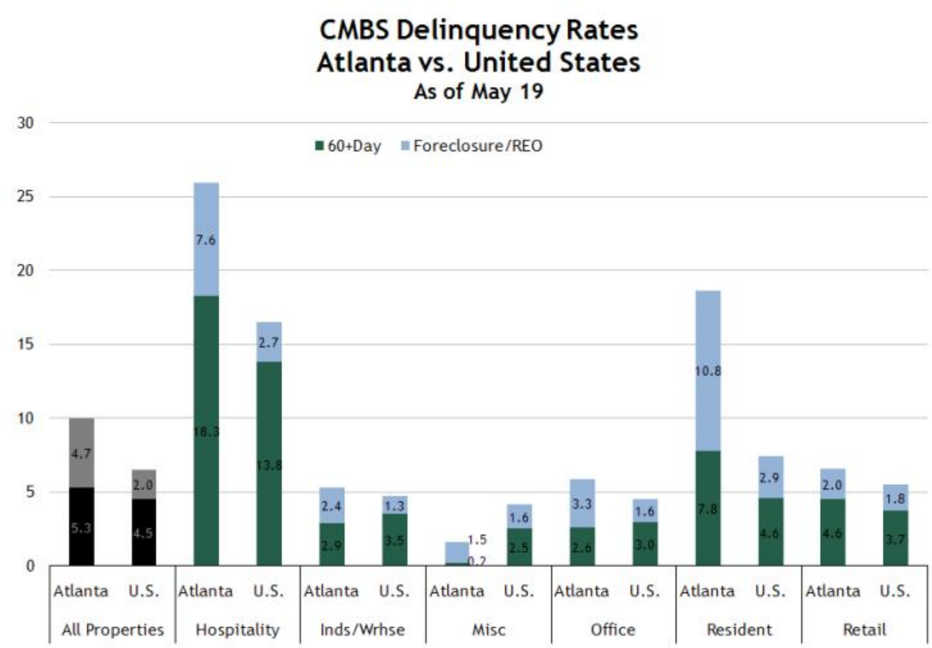


Source: SIFMA

- Only 3% of the outstanding loan amounts are fully amortizing loans, leaving approximately 97% that will result in large balloon payments that will be due when the loans mature.

Delinquency rates among CMBS are especially high for securities backed by hospitality properties. The hospitality delinquency rate of greater than 60 days (including foreclosure and real estate owned) was 16.52% for the United States as of May 18. It was even higher for Atlanta, at 25.9%, 7.6% of which are in foreclosure or REOs.

Atlanta also stands out among CMBS backed by residential properties (such as apartment complexes and condos). Of these securities, 17.8% are more than 60 days delinquent, and 7.8% are in foreclosure or REOs.



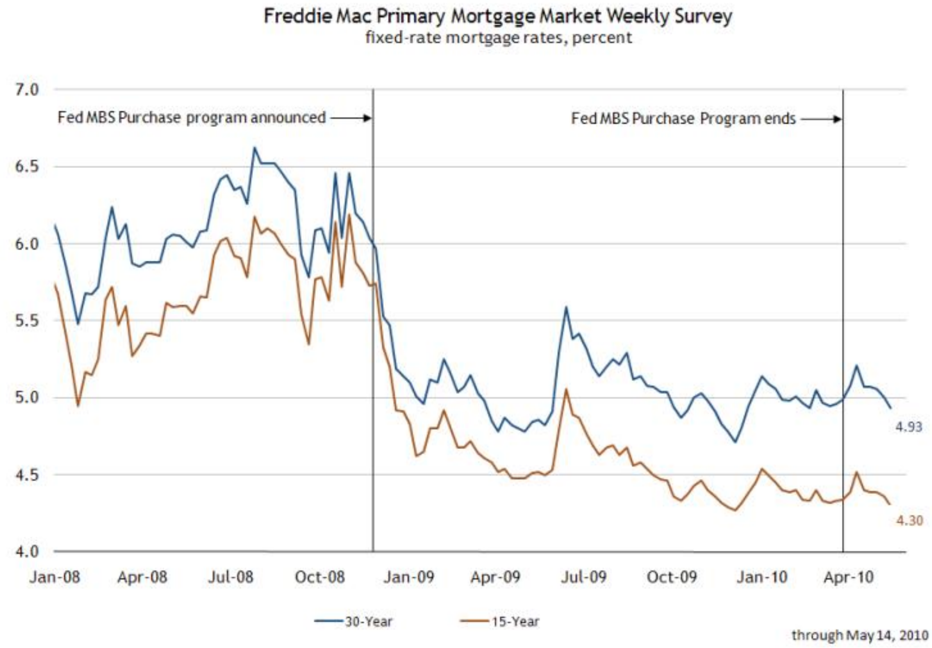
Source: Bloomberg

Residential Mortgages

Summary

Mortgage rates are at the lowest levels of 2010. Both the 30- and 15-year fixed rates have declined or held steady in each of the past five weeks.

The 30-year fixed rate mortgage has not been lower since Dec. 10, 2009, when it averaged 4.81%; the 15-year fixed rate mortgage has not been lower since Dec. 3, 2009, when it averaged 4.27%.



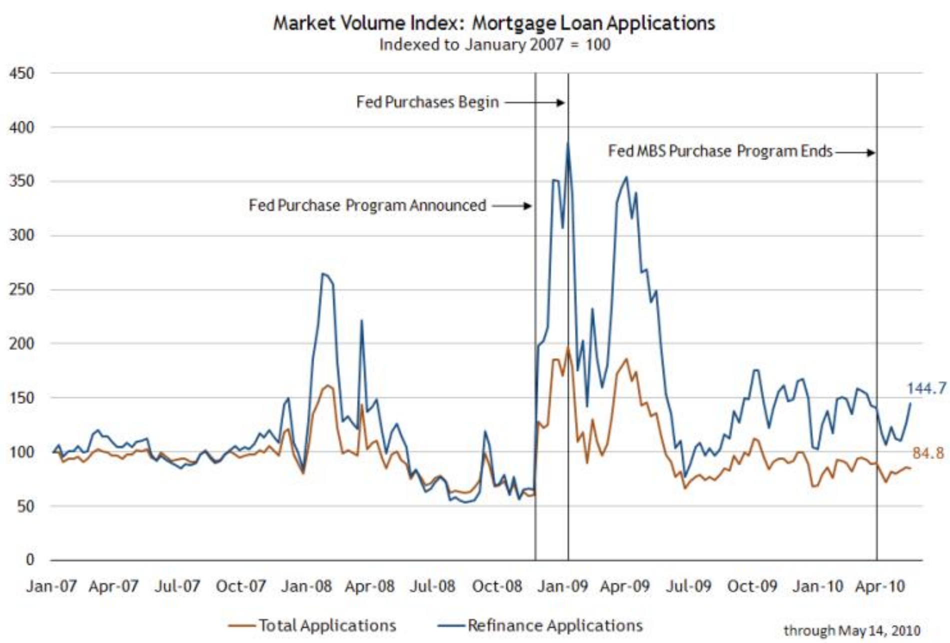
Source: Federal Home Loan Mortgage Corporation/Haver Analytics

- The 30-year fixed rate averaged 4.93%, down from 5% a week ago; the 15-year fixed rate averaged 4.3%, down from 4.36% a week ago.
- At this time last year, the 30-year fixed rate averaged 4.86%; the 15-year fixed rate averaged 4.52%.

Total mortgage loan application volume and refinance application volume remain well below the peaks set in January and April 2009.

The refinance index increased 14.5% from the previous week to its highest level in nine weeks.

Despite relatively low rates, purchase applications have declined almost 20% during the past month.



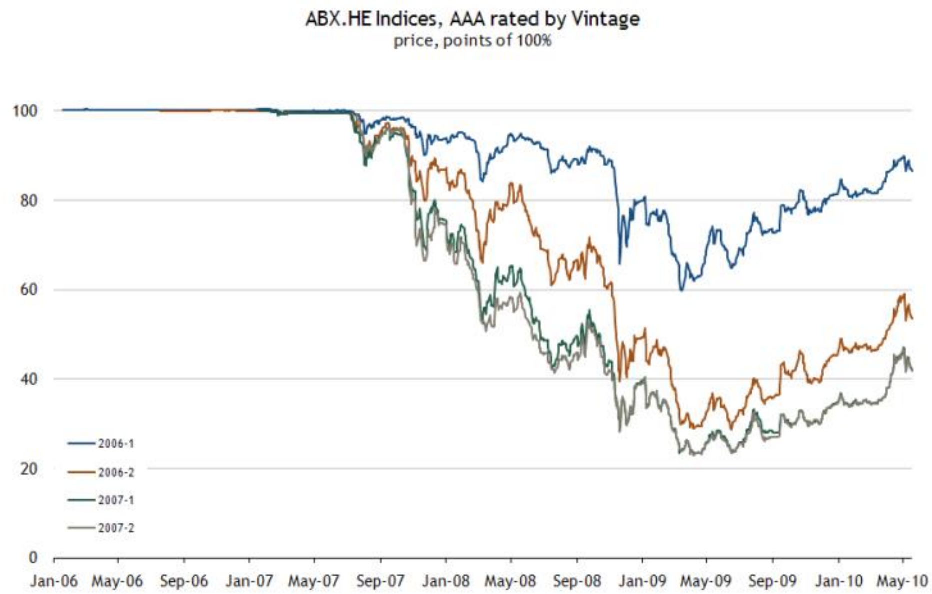
Source: Mortgage Bankers Association/Haver Analytics

- For the week ending May 14, total mortgage application volume decreased 1.5% from one week earlier while total refinance application volume increased from the previous week.
- The refinance share of mortgage activity increased to 68.1% of total applications, up from 57.7% a week earlier.

CMBX and ABX

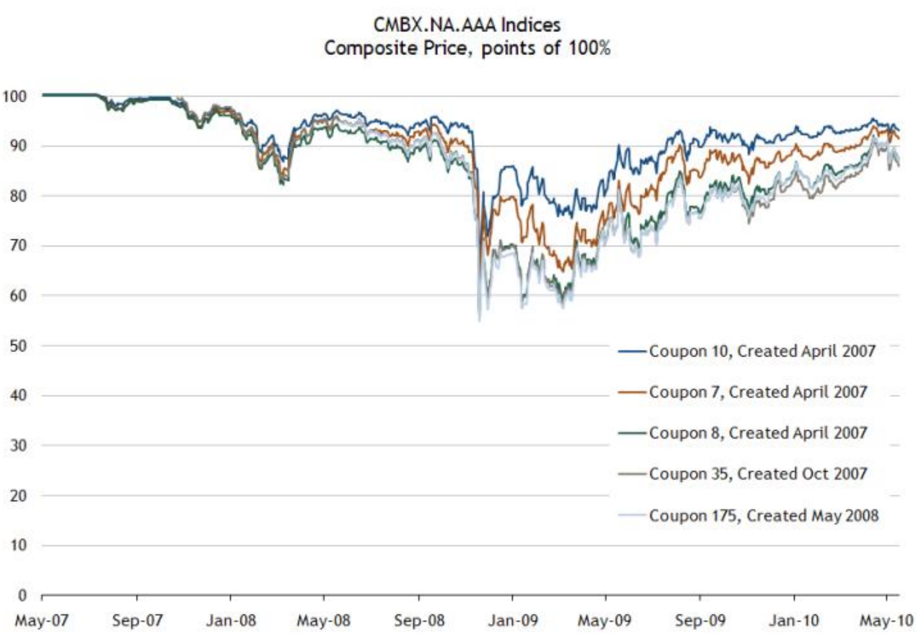
Summary

Across all vintages, the ABX has declined slightly in the past month. The decrease indicates an increase in the cost to insure against default on the underlying home equity loans.



Source: Markit Group Limited/Haver Analytics

The same is true for the index value of commercial MBS credit default swaps. All vintages of the CMBX.NA.AAA have decreased in the past month, indicating an increase in the cost to insure against default of commercial MBS.

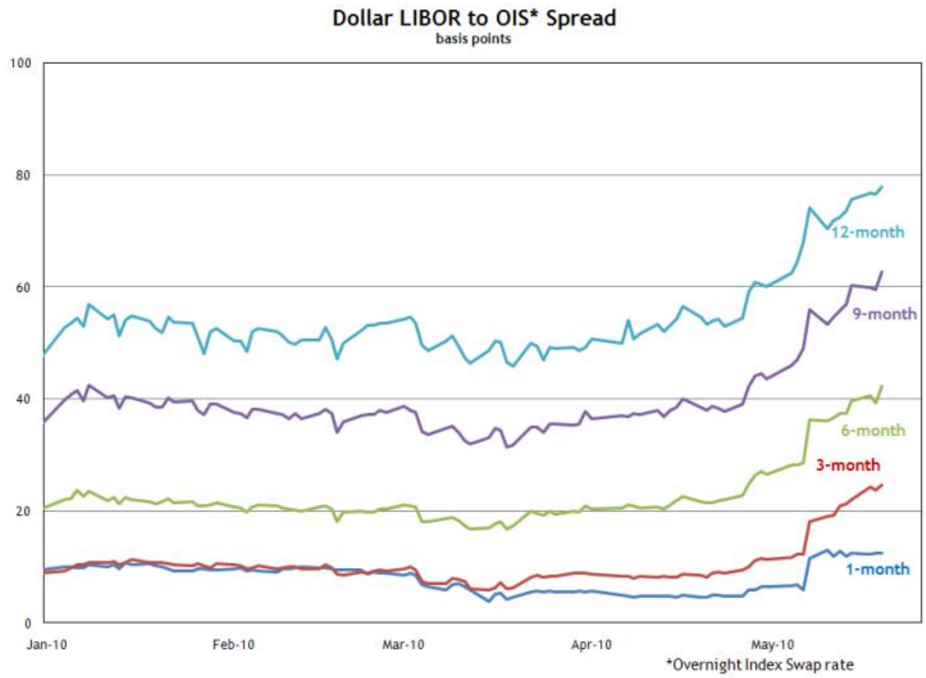


Source: Markit Group Limited/Haver Analytics

Broad Financial Market Indicators

Summary

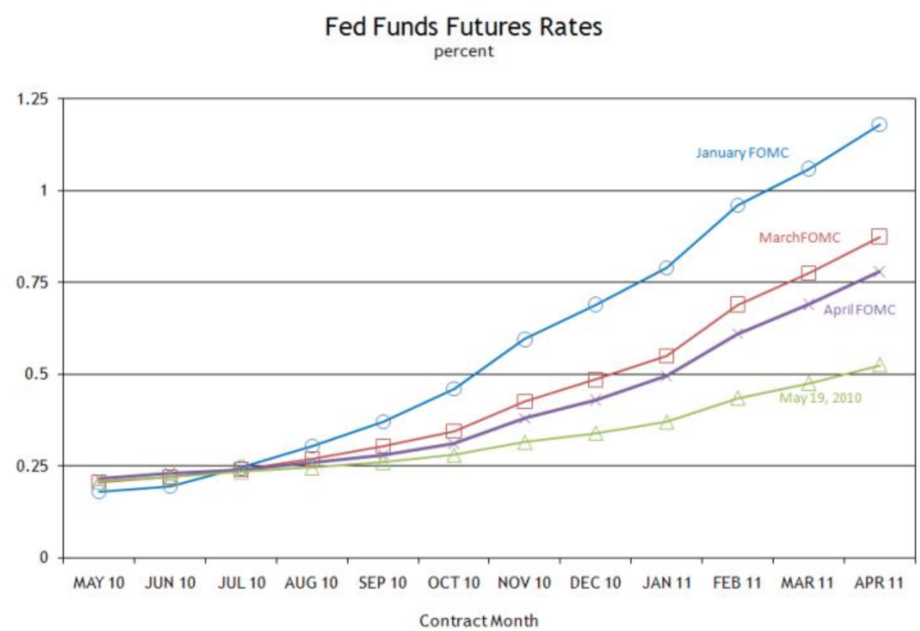
Outside of the one-month tenor, LIBOR to OIS spreads have risen 3 bps to 6 bps since first spiking on May 7 as European financial turmoil continues to pressure U.S. dollar funding markets.



Source: Bloomberg/British Bankers' Association

- Between May 7 and 19, dollar LIBOR to OIS spreads widened across all tenors except for the one month tenor, which is flat. The three-, six-, and nine-month spreads rose by 6 basis points (bps) to 8 bps, while the 12-month spread is higher by 4 bps.

The curve of expected rates from the fed funds futures market has continued to flatten since the April FOMC meeting.



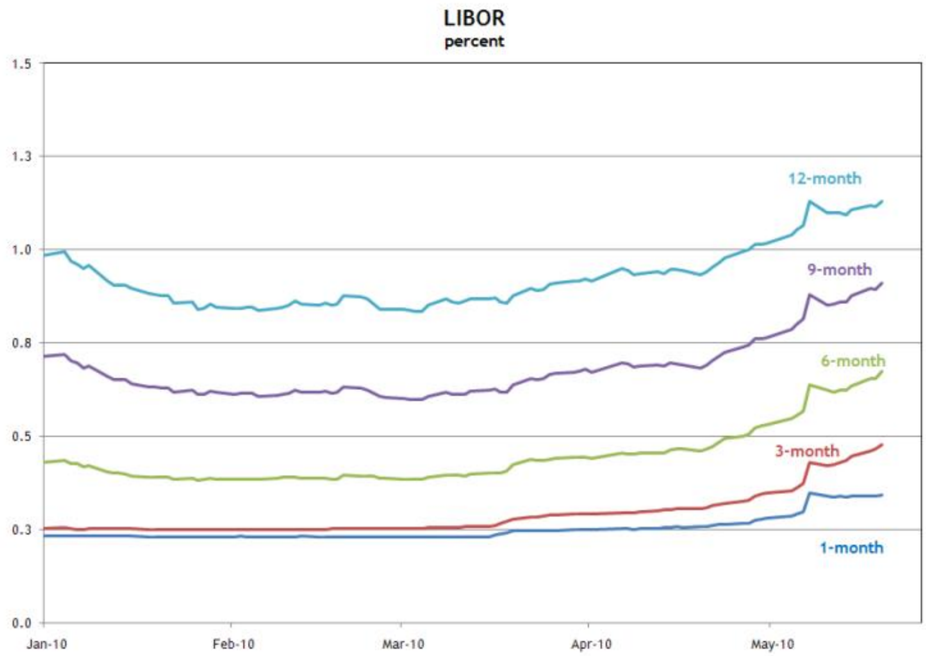
Source: Bloomberg

- Since the April FOMC meeting, the fed funds futures markets have pushed an expected rate increase to the end of the first quarter of 2011 or the second quarter of that year.
- As of May 19, the futures market for fed funds indicates an implied rate of about 48 bps for the March 2011 contract.

Broad Financial Market Indicators

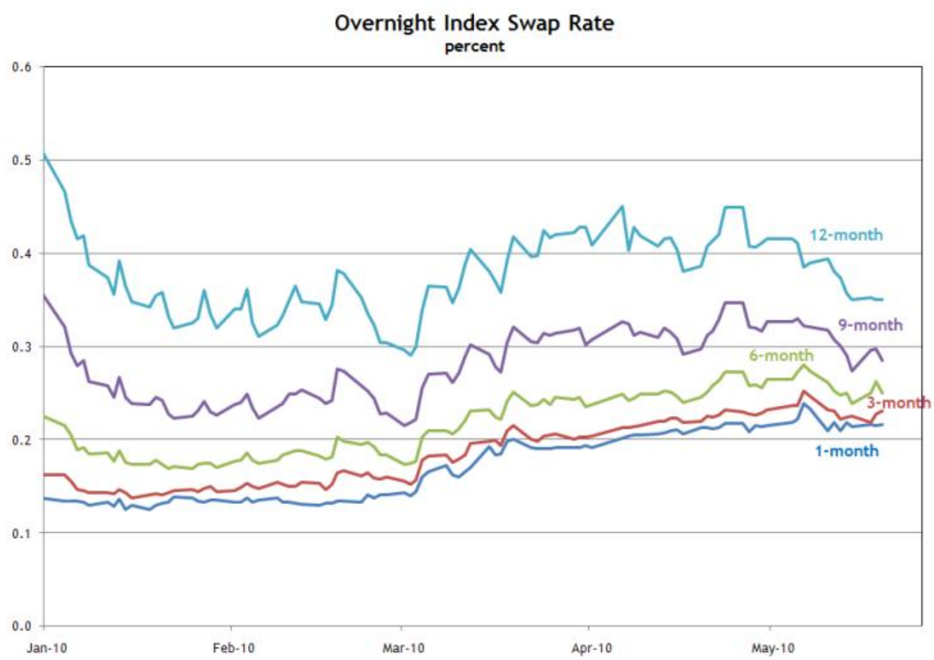
Summary

Decomposing the LIBOR to OIS spread into its respective components shows a rise in LIBOR fixings for all tenors longer than one month. On average, LIBOR is 3 bps higher for each tenor than its previous peak on May 7.



Source: Bloomberg/British Bankers' Association

Overnight index swap rates, while volatile, have been relatively stable.

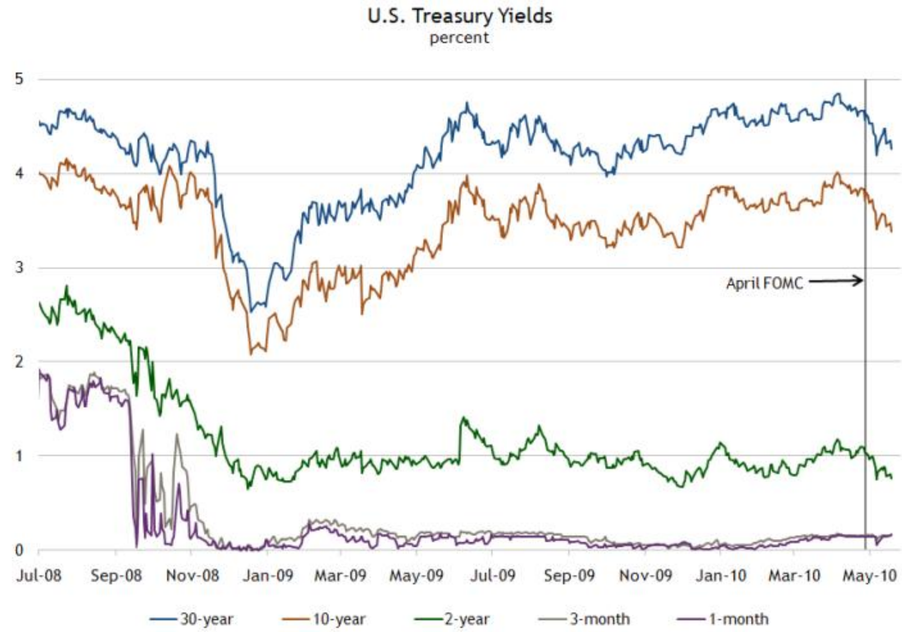


Source: Bloomberg/British Bankers' Association

Broad Financial Market Indicators

Summary

Longer-dated Treasury yields have declined significantly since the last FOMC meeting.



Source: Federal Reserve Board

- Treasury yields continue to experience declines from safe-haven flows coming in light of uncertainty regarding European financial troubles.
- Since the April FOMC meeting, longer-dated Treasury yields have moved lower across the two-to-30 year curve: Through May 18, the 30-year bond is down 37 bps to 4.26%, the 10-year is 42 bps lower at 3.38%, with the two-year note declined 7 bps to 0.76%.
- The three– and one-month T-bill rates are essentially unchanged, both at 0.17%.