FEDERAL RESERVE BANK of ATLANTA

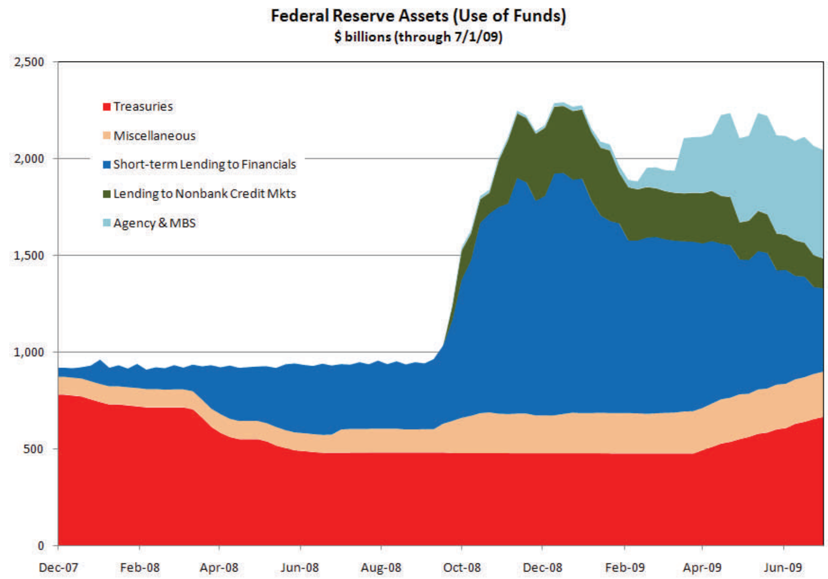
July 8, 2009

# Financial Highlights

## Federal Reserve

### Summary

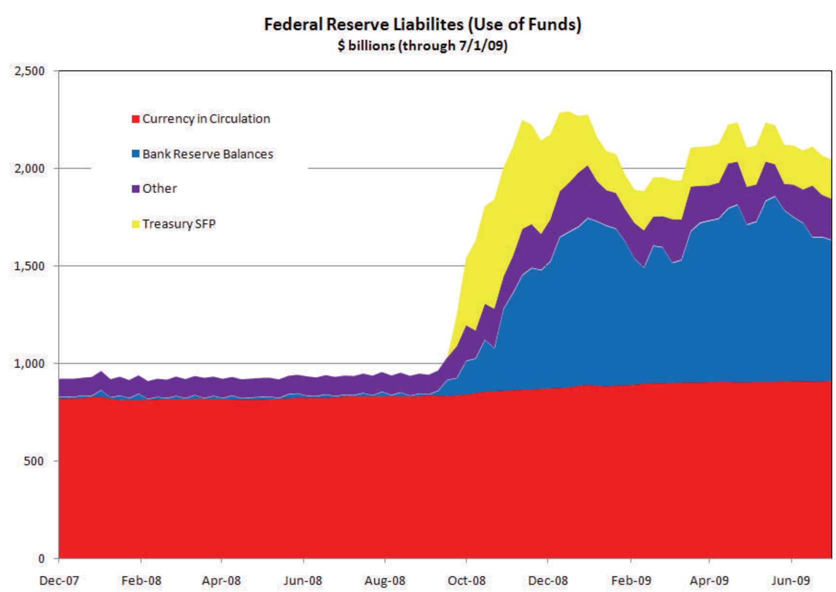
**The Fed's balance sheet declined for the seventh time in the last eight weeks.**




Source: Federal Reserve Board

- While the overall size of the Fed's balance sheet has been shrinking slightly over the last two months, the composition of the balance sheet has changed.
- There have been sizeable declines in short-term lending to financials and lending to nonbank credit markets.
- Offsetting these declines have been increases in holdings of agency debt and mortgage backed securities (MBS) as well as increases in holdings of U.S. Treasury securities. Combined, these three categories have increased by about $460 billion since the week ended March 18.

**On the liabilities side, bank reserve balances continue to make up a large portion of the balance sheet, accounting for about 35% of liabilities; currency in circulation accounts for about 45%.**



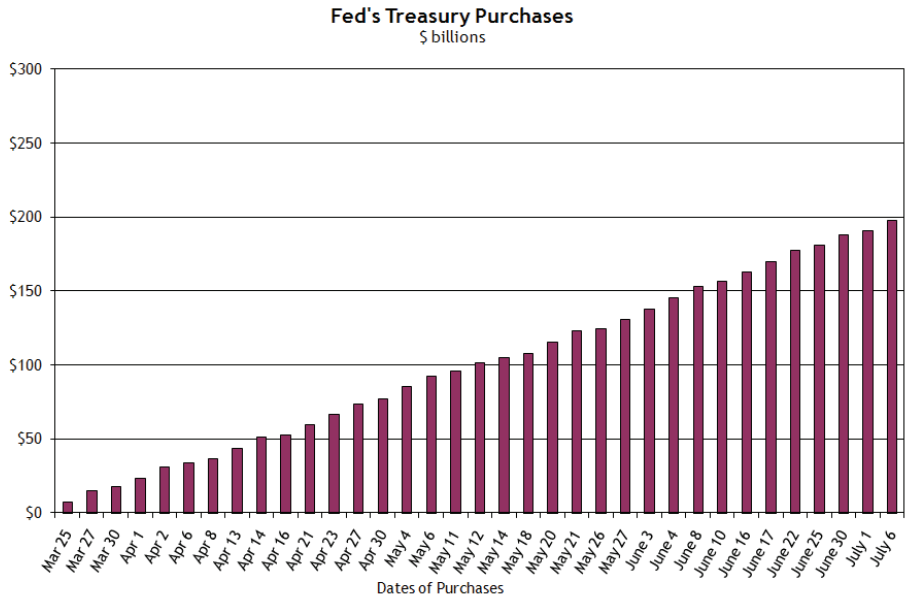

Source: Federal Reserve Board

**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 Supplemental Financing Program.

# Federal Reserve

**Summary**

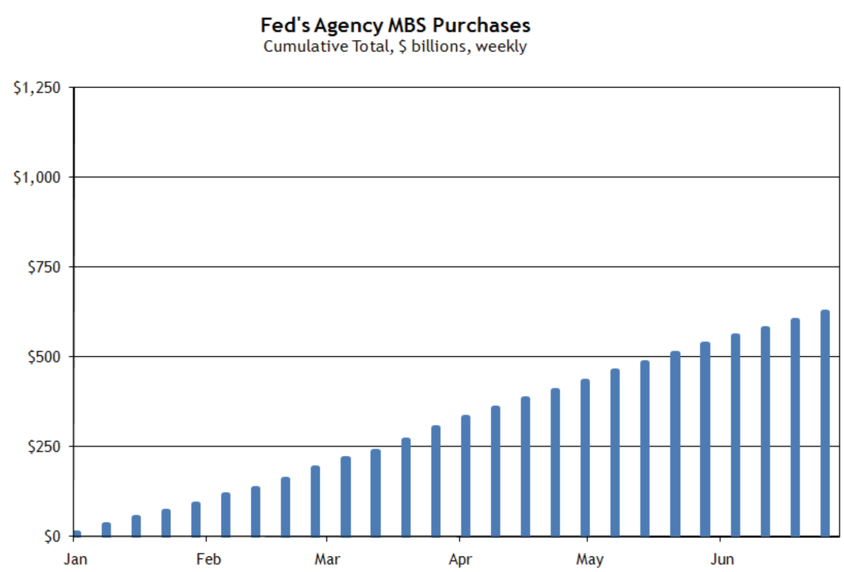
**The Fed has purchased a total of $198 billion in Treasuries and plans to purchase another $102 billion by autumn.**




Source: NY Fed

- The Fed made a $7 billion purchase of Treasury securities on July 6.
- Since beginning its program on March 25, the Fed has made a total of $197.7 billion of Treasury purchases and plans to purchase a total of up to $300 billion by autumn.

**The Fed is now at the halfway point of its MBS purchases, which currently total $625 billion.**



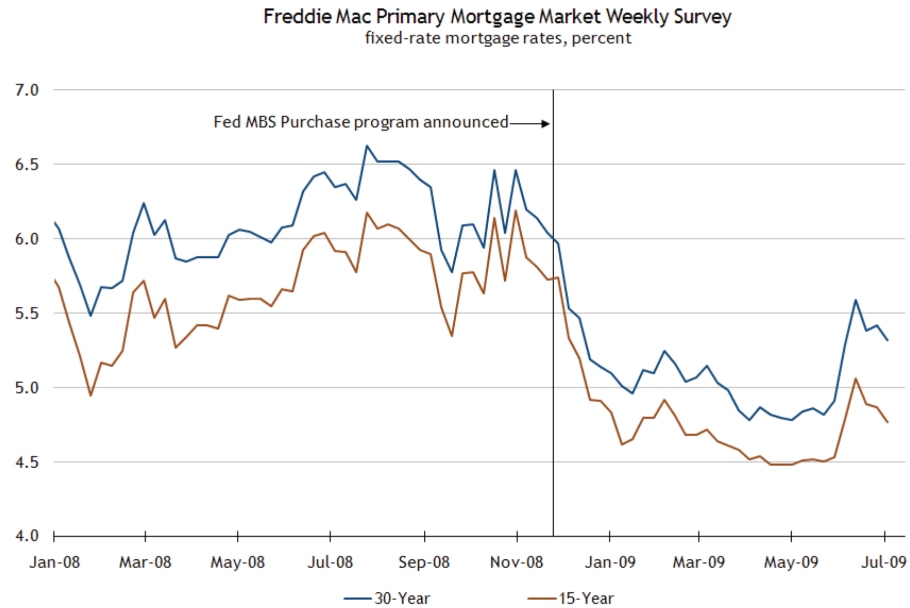

Source: NY Fed

- Between June 25 and July 1, the Fed's net purchases of agency-backed MBS totaled $23.1 billion: $7.2 billion of Freddie Mac, $13.1 billion of Fannie Mae, and $2.8 billion of Ginnie Mae.
- To date, the Fed has purchased a net total of $625 billion of agency MBS out of the up to $1.25 trillion it has pledged to purchase by year-end.

# Mortgage Markets

**Summary**

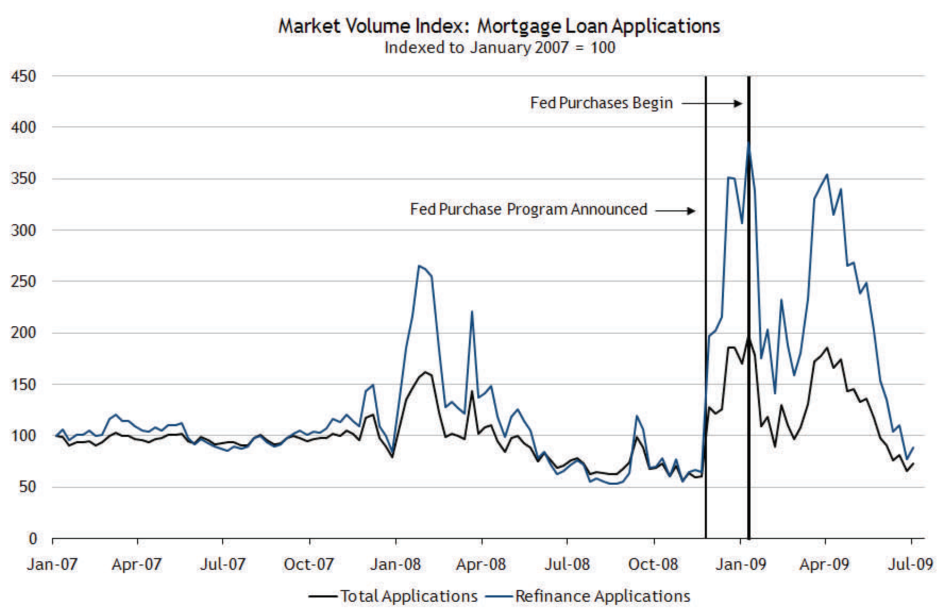
**Both the 30- and 15-year fixed mortgage rates were little changed from the previous week but are above record lows set in April and May.**




Source: Federal Home Loan Mortgage Corporation/Haver Analytics

- For the week ending July 3, mortgage rates changed only slightly; both the 30-year fixed rate and the 15-year fixed rate fell 10 basis points (bps) to 5.32% and 4.77%, respectively.

**Both total mortgage loan application volume and refinance application volume remain below their peaks in January and April.**



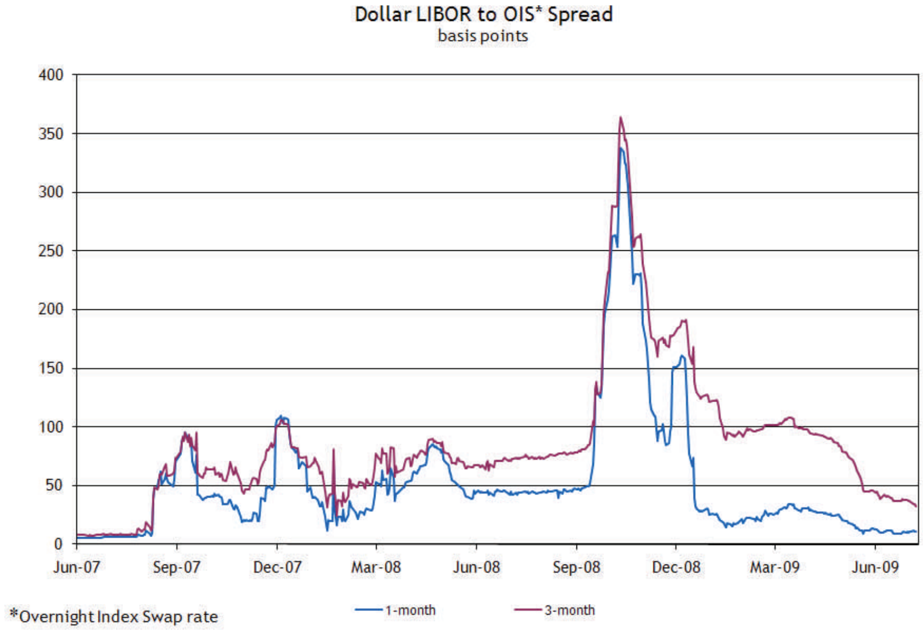

Source: Mortgage Bankers Association/Haver Analytics

- For the week ending July 3, total mortgage application volume and total refinance application volume increased over the previous week; both remain 27% and 11%, respectively, lower than the January 2007 level.

## Financial Markets

**Summary**

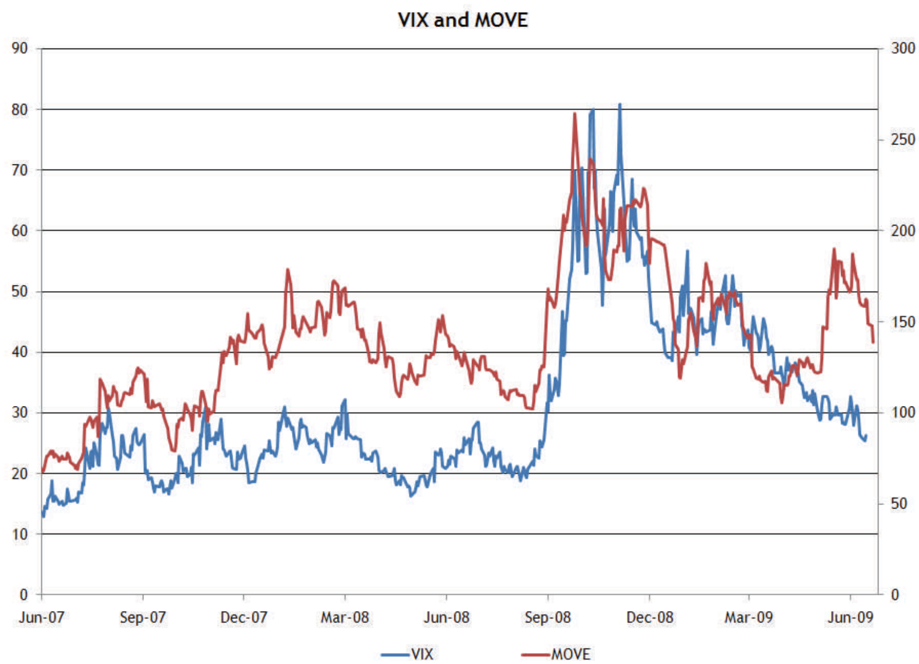
**LIBOR-to-OIS spreads have continued to narrow in recent weeks, with the one-month now close to precrisis levels.**




Source: Bloomberg and British Bankers' Association

- Since March 18, LIBOR to OIS spreads have narrowed significantly. For the three-month, it has moved from 107 to 33 bps, and for the one-month it has gone from 33 to 11 bps as of July 8, narrowing 74 and 22 bps, respectively.

**Bond market volatility, having been on the rise since mid-May, has drifted lower over the past two weeks, while equity volatility has stabilized.**




Source: Bloomberg

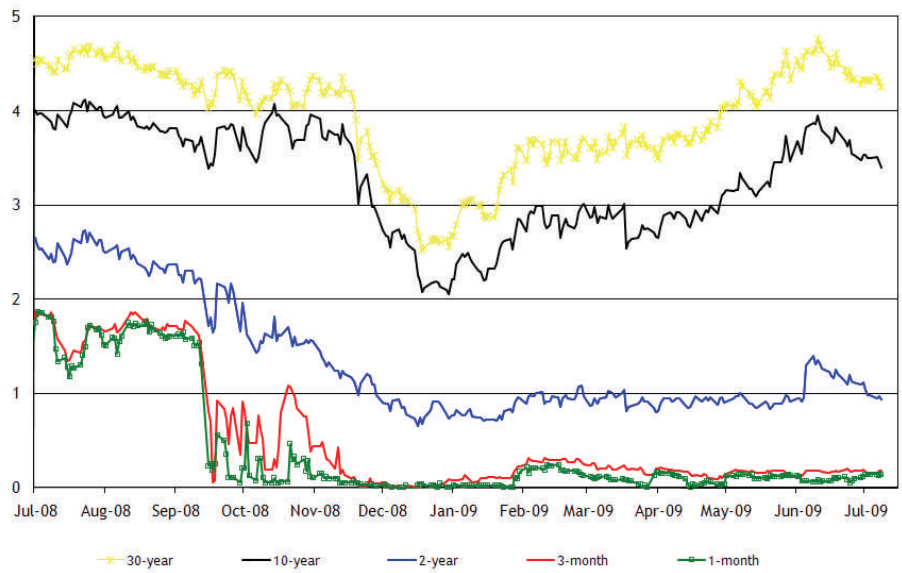
- The Merrill Lynch Option Volatility Expectations (MOVE) index, a measure of bond market volatility, has risen steeply, from about 123 May 20 to 187 as of June 18, but has eased to 139 as of July 7.
- The Volatility Index (VIX) of the Chicago Board Options Exchange (CBOE), a measure of equity market volatility, has reached its lowest point since before Lehman Brothers filed for bankruptcy in September 2008.

## Financial Markets

**Summary**

**Longer-dated Treasury yields have continued to edge downward over the past month.**

U.S. Treasury Yields
percent




Source: Bloomberg

- As of July 8, the 30-year Treasury bond yielded 4.25% (7 bps lower than a week ago), the 10-year Treasury note 3.40% (14 bps lower), and the two-year note 0.94% (11 bps lower).
- Meanwhile, the three-month T-bill yield was 0.18%, and the one-month T-bill yield was 0.14%.

**The CDX has trended downward since March, indicating improvement in perceived default risk among investment-grade bonds.**

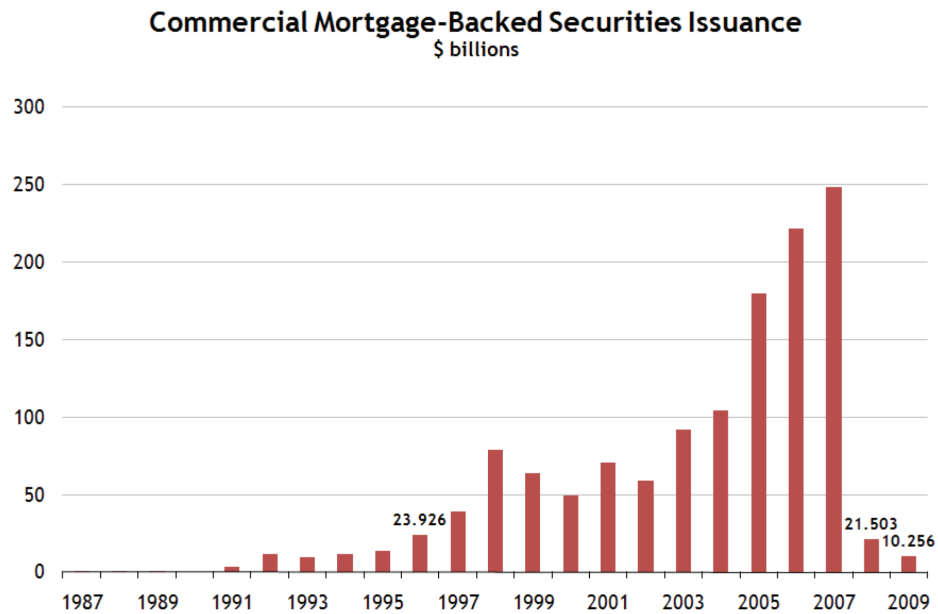
CDX - Credit Default Swap Index
North American Investment Grade, 5-year, basis points


Source: Markit Group Limited/Haver Analytics

## Financial Markets

**Summary**

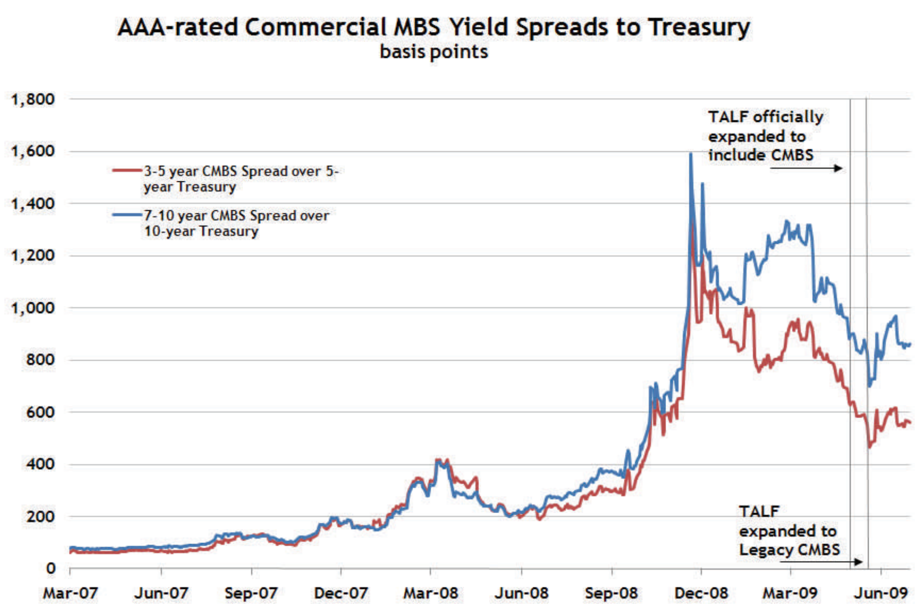
**CMBS issuance remains depressed. TALF recently started accepting new issues of CMBS and had its first operation June 16, and that operation had no subscribers. Market participants are still waiting to see if the TALF will help renew interest in the CMBS market.**




Source: Bloomberg

- Issuance of commercial mortgage-backed securities remains at low levels. If this rate of issuance continues, there will be roughly $20 billion of CMBS issuance by year-end.
- CMBS issuance totaled $2.38 billion in June and $3.3 billion in the second quarter.

**On June 26, Standard and Poor's released new criteria for ratings and placed an additional 1,584 tranches on CreditWatch negative (1,979 of AAA tranches have already been downgraded to this status), causing more changes in the market.**




Source: Bloomberg and Merrill Lynch

- A downgrade rating warning by Standard and Poor's on May 26 has prompted the repackaging of pre-existing bonds into re-REMICs to insulate the most senior tranche of CMBS against futures losses and ratings downgrades.
- This has put some downward pressure on yields, but compared to a year ago, yields are still high. The three-to-five-year CMBS yield spread over the benchmark interest rate is 308 bps higher than this time last year, and the seven-to-10-year CMBS spread is 570 bps higher than a year ago.

# Bank Failures

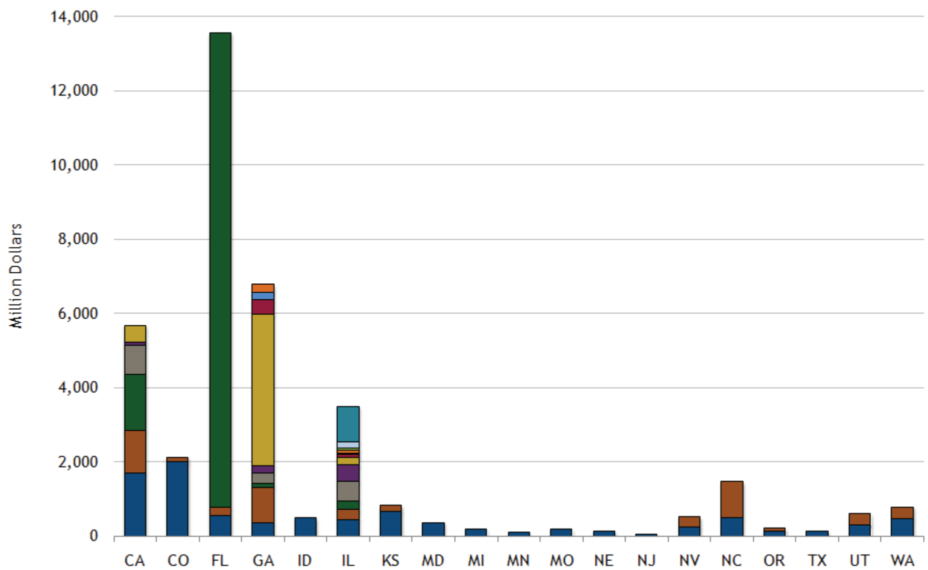
## Summary

Regulators closed seven banks last week, six in Illinois and one in Texas, bringing the number of failures in 2009 to 52.

The six closures in Illinois were all controlled by one family. According to the FDIC, their failure resulted primarily from losses related to the banks' investments in collateralized debt obligations and other loan losses.

There have been a total of 77 bank failures since the beginning of 2008. Georgia leads the nation with 14, followed by Illinois with 13, California with 11, and Florida and Nevada with five each.

**Asset Size of FDIC-Insured Failures by State**
**January 1, 2009 through July 3, 2009**




Note: Each block represents one bank
Source: FDIC Press Releases

- The six failed Illinois banks include the John Warner Bank (Clinton), First State Bank of Winchester (Winchester), Rock River Bank (Oregon), Elizabeth State Bank (Elizabeth), First National Bank of Danville (Danville), and Founders Bank (Worth).
- Millennium State Bank of Texas (Dallas), with approximately $118 million in assets on June 30, 2009, was the first bank failure in Texas this year.