FEDERAL RESERVE BANK of ATLANTA

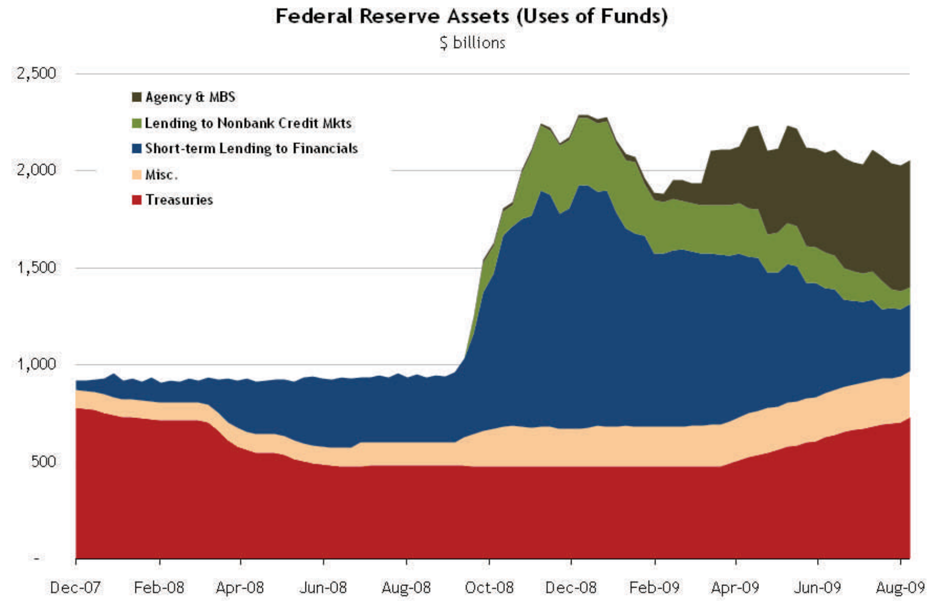
August 19, 2009

Financial Highlights

Federal Reserve

Summary

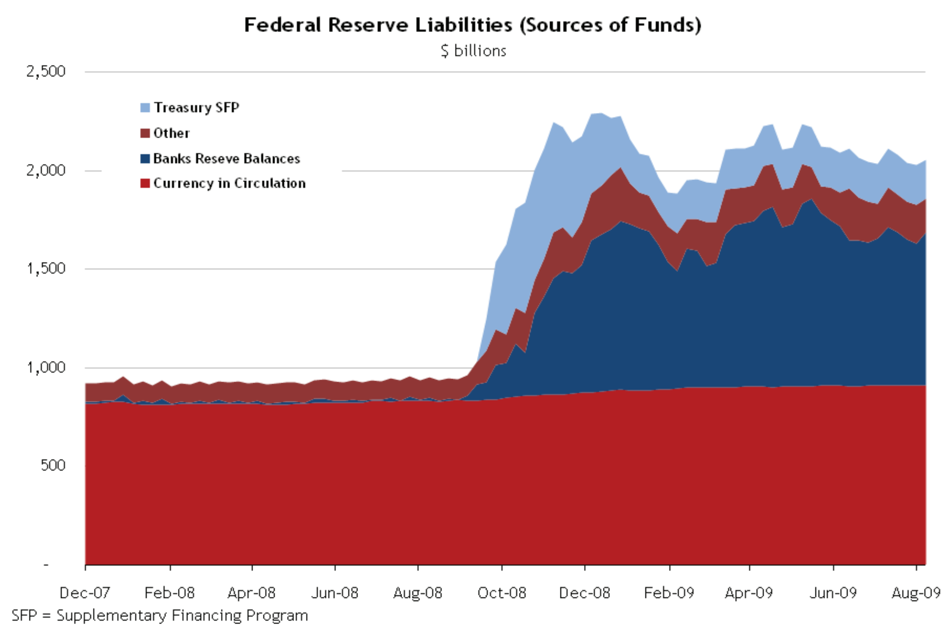
The size of the Fed's balance sheet has largely been flat since March, remaining within a range of $2 trillion to $2.2 trillion.



Source: Federal Reserve Board

- The overall size of the Fed's balance sheet has been steady during the past few months, and the broad trends remain little changed. That is, the sizeable declines in short-term lending to financials and nonbank credit markets have largely been offset by increases in holdings of Treasury securities, mortgage-backed securities (MBS), and agency debt.
- The FOMC announced last week that it will gradually slow the pace of Treasury purchases, with the full $300 billion expected to be purchased by the end of October. Since April, the Fed's holdings of Treasury securities have risen by about $254 billion (as of August 12), putting the average weekly increase at about $12.7 billion. This pace leaves the remaining $46 billion in Treasuries to come onto the balance sheet during the roughly 11 weeks until the end of October.

On the liabilities side, bank reserve balances continue to make up a large portion of the balance sheet. Since March, reserves have averaged nearly $800 billion, accounting for about 38% of liabilities.



SFP = Supplementary Financing Program

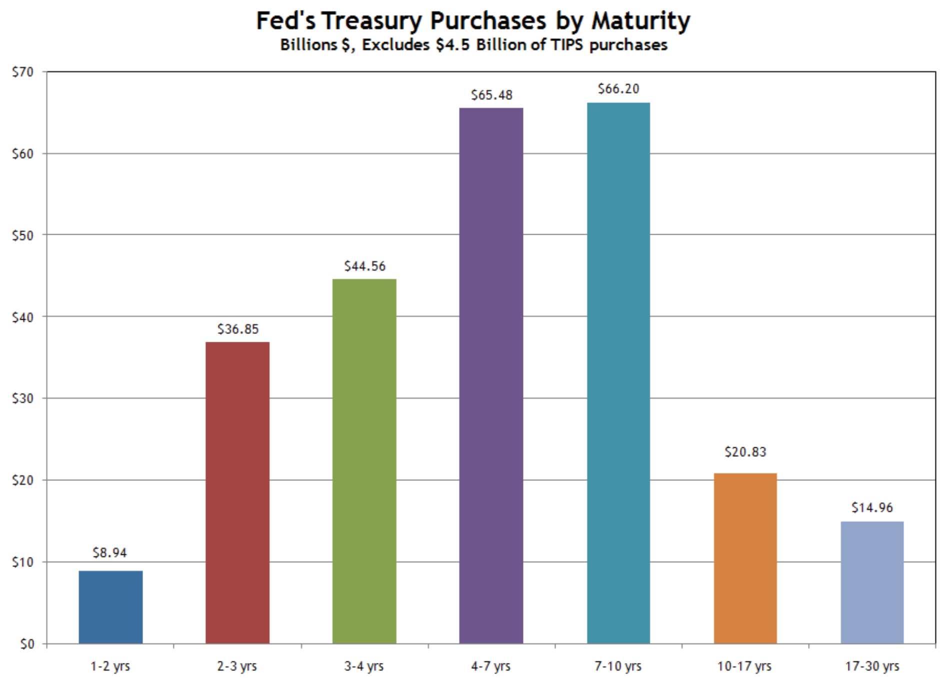
Source: Federal Reserve Board

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

Decomposing the Fed's purchases of Treasury securities by maturity shows a heavy focus in the four-to-seven-year and seven-to-10-year sectors, together making up half of all purchases so far.



Source: NY Fed

- The Fed has purchased a total of $262 billion of Treasury securities through August 19. Of the $257.8 billion in non-TIPS securities, the Fed has focused on the four-to-seven-year sector and the seven-to-ten-year sector the most, purchasing approximately $65 billion in each (totaling about half of all purchases). The two-to-three-year sector and the three-to-four-year sector have also received a fair amount of attention, totaling $80 billion between the two (more than 30% of all purchases).
- In the past week, the Fed made two additional Treasury purchases: one on August 17 for $7 billion (in the four-to-seven-year sector) and another on August 19 for $2.6 billion (roughly in the 10-to-17-year sector).
- The FOMC statement released last Wednesday, August 12, said the Fed is "in the process of buying $300 billion of Treasury securities" by the end of October. This amount was an adjustment from previous statements that stated that it would make "up to" $300 billion in purchases "by autumn."

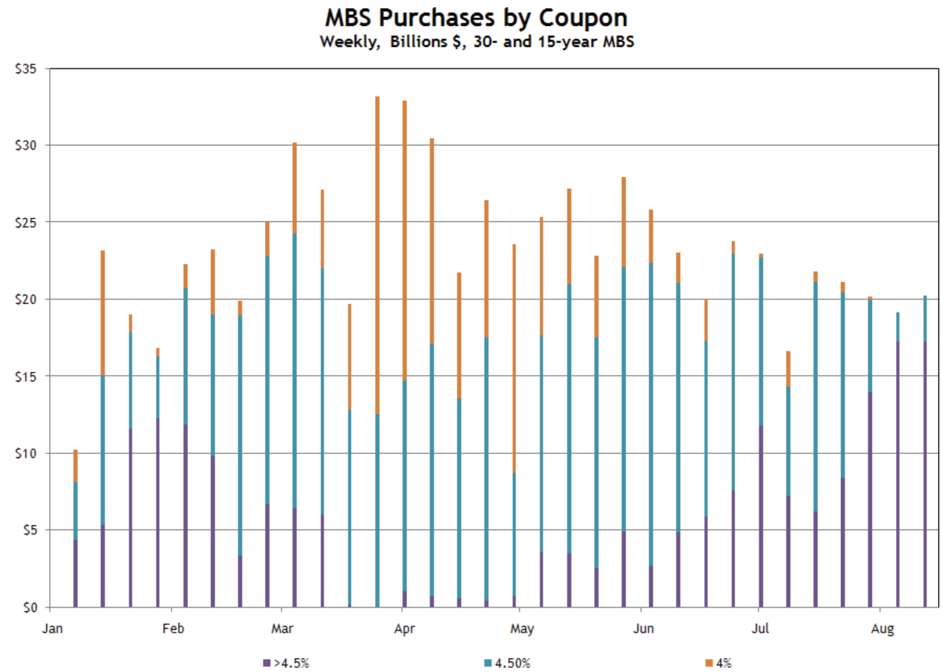
Federal Reserve

Summary

Between August 5 and 12, the Fed purchased a net $20.4 billion in MBS, putting the total to $743 billion.

Continuing a pattern seen the last few weeks, most of the MBS had a 5% or 5.5% coupon.

Earlier in the history of the purchase program, however, the Fed made most of its purchases in the 4% or 4.5% coupon areas.



Source: NY Fed

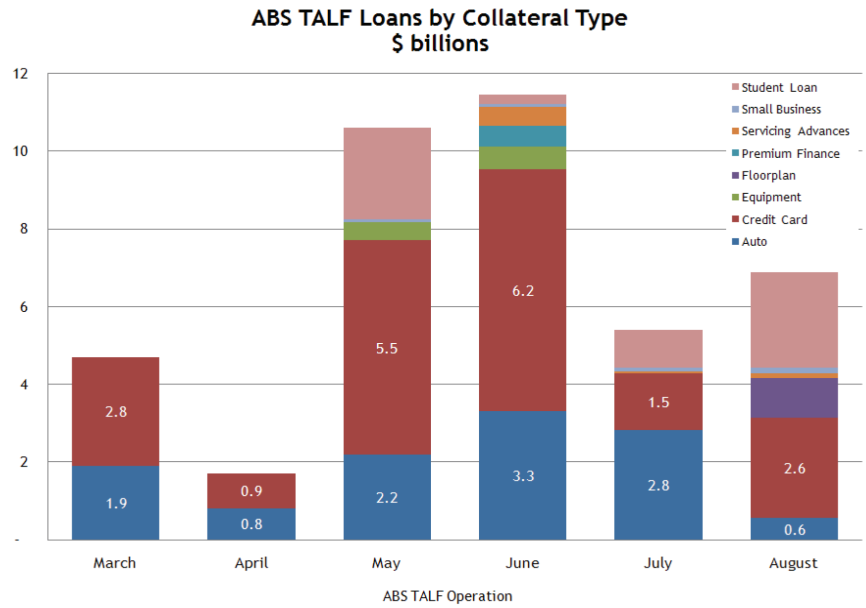
- At the start of the program the Fed focused on 4% and 4.5% coupons, but in recent weeks purchases have been concentrated in higher coupon areas. Between August 5 and 12, it purchased $6.7 billion of 5.5% coupon MBS and $10.5 billion of 5% while it purchased $3 billion of 4.5% and none of 4%.
- Between February 18 and June 24, MBS with a coupon higher than 4.5% made up 30% or less of all purchases. But in the last three weeks they've made up between 70-90% of all purchases.

Consumer ABS

Summary

Investors requested $6.9 billion in TALF loans at the August 6 operation, which is close to the average of $6.8 billion in the past five operations.

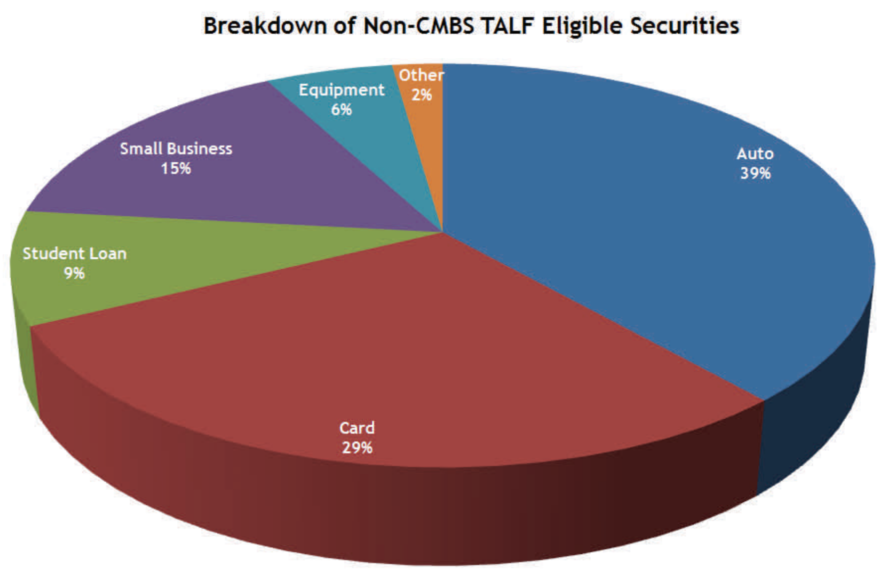
Separately, the expiration of the TALF program for newly issued ABS was extended from December 31, 2009, to March 31, 2010.



Source: Federal Reserve Bank of New York

- A total of about $41 billion in non-CMBS TALF loan requests have been made since the start of the program in March. The bulk of these (about three quarters) have been for ABS backed by auto loans and credit cards, each accounting for about 28% and 48% of requests, respectively.

About three quarters of non-CMBS TALF-eligible securities are consumer ABS (auto, credit card, and student loans).



Source: Bloomberg

- The large percentage of TALF loans backed by auto and credit card loans might partially be a reflection of the composition of the securities eligible for the program. According to Bloomberg data, approximately $74.7 billion in ABS can currently be used as collateral for the TALF. Of these, about $28.8 billion (or 39%) are auto ABS, and about $21.8 billion (or 29%) are credit card ABS. To compare, looking at historical Bloomberg data on issuance in 2006 of those types of securities in the chart above, about 85% were consumer ABS (36% auto, 26% card, and 24% student). Thus, the distribution of eligible securities roughly follows the proportions of market issuance just prior to the credit crisis.
- The relatively greater amount of consumer ABS eligible for the program may contribute to greater liquidity and thus lower liquidity premiums (see ABS spreads on next page).

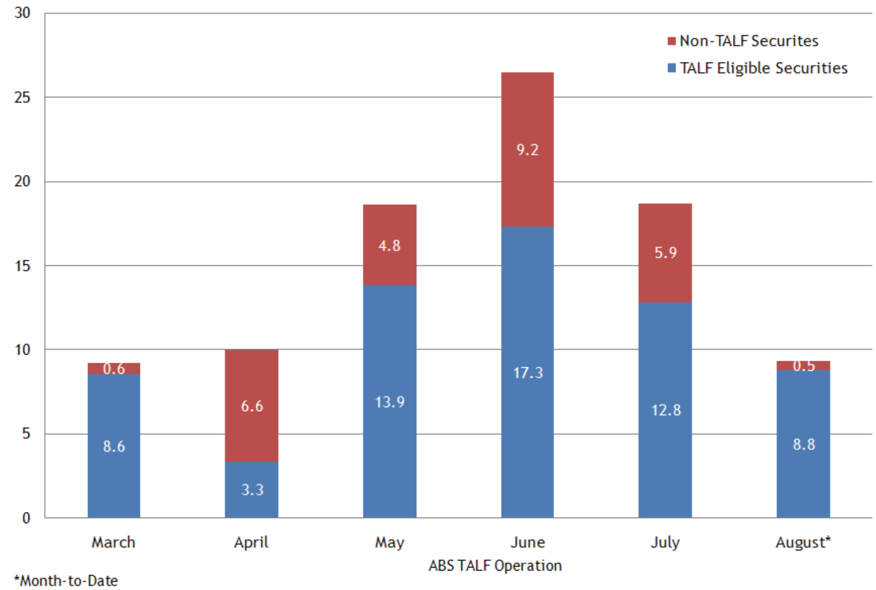
Consumer ABS

Summary

Monthly ABS issuance has averaged about $17 billion from March to July.

The pace of issuance so far in August looks to have slowed from the robust pace in previous months, and the proportion of new non-TALF securities has declined.

ABS Issuance
$ billions

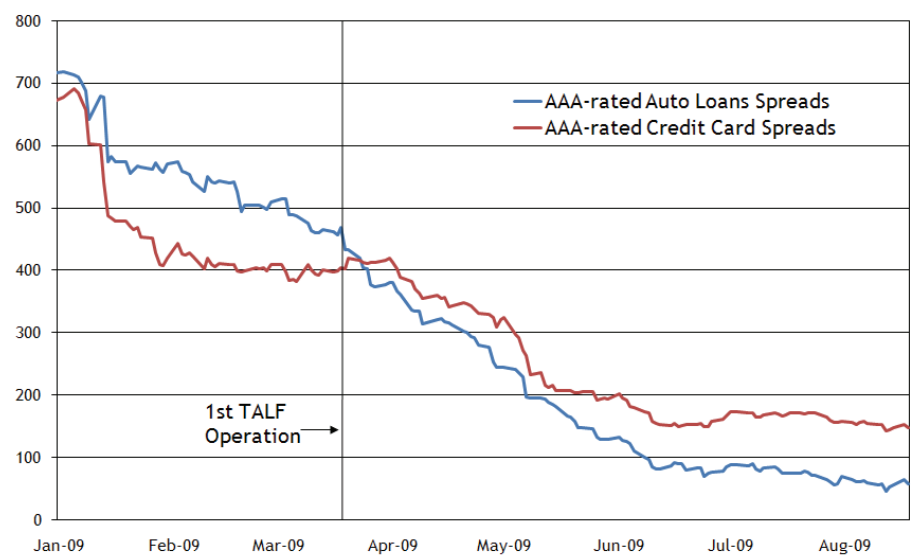


Source: Bloomberg

- The chart above includes credit card, auto, equipment lease, student loan, small business, and other ABS. Typically, since the start of TALF in March the majority of ABS issuance has occurred at the beginning of the month, corresponding to the TALF operation. If this pattern holds, issuance in August will have slowed noticeably from the pace seen from May to July.

Risk spreads on AAA-rated credit card and auto loan ABS declined markedly during the first half of the year but have largely been flat since June.

AAA Consumer ABS Yield Spreads over 3-year Treasury
basis points



Source: Bloomberg and Merrill Lynch

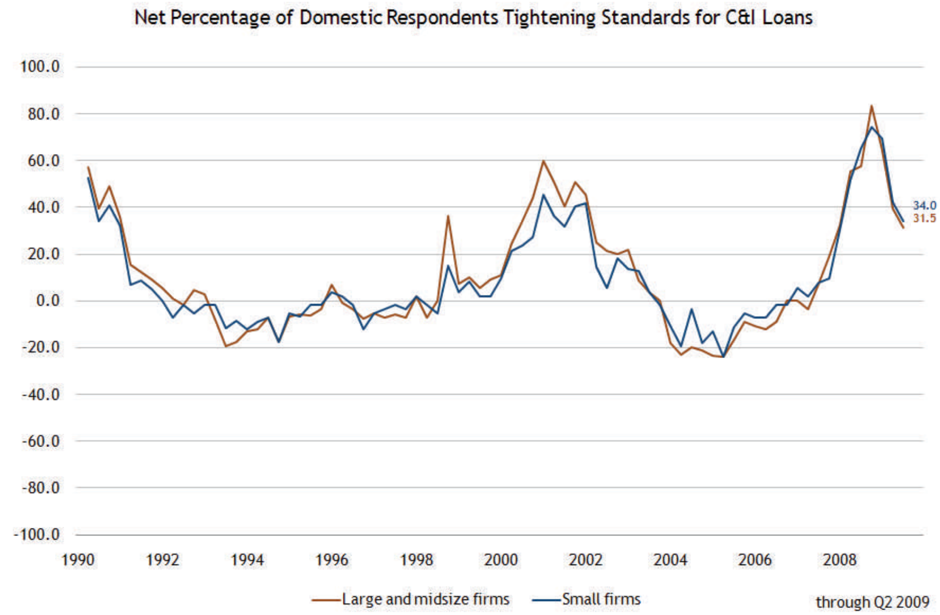
- Since the first TALF operation in March, yield spreads on securities backed by auto loans and credit card receivables have declined by about 400 and 250 basis points (bps), respectively. The vast majority of the spread narrowing reflects declines in yields on the ABS (autos down 387 bps and cards down 240 bps since March 17) rather than increases in yields on Treasuries.
- Part of the decline in ABS yields likely reflects improved liquidity conditions (and thus lower liquidity premiums) in the ABS market following implementation of the TALF program.

Senior Loan Officer Opinion Survey

Summary

The Federal Reserve Board's July 2009 Senior Loan Officer Opinion Survey on bank lending practices indicated that domestic banks continued to tighten standards and terms on all major type of loans to businesses and consumers.

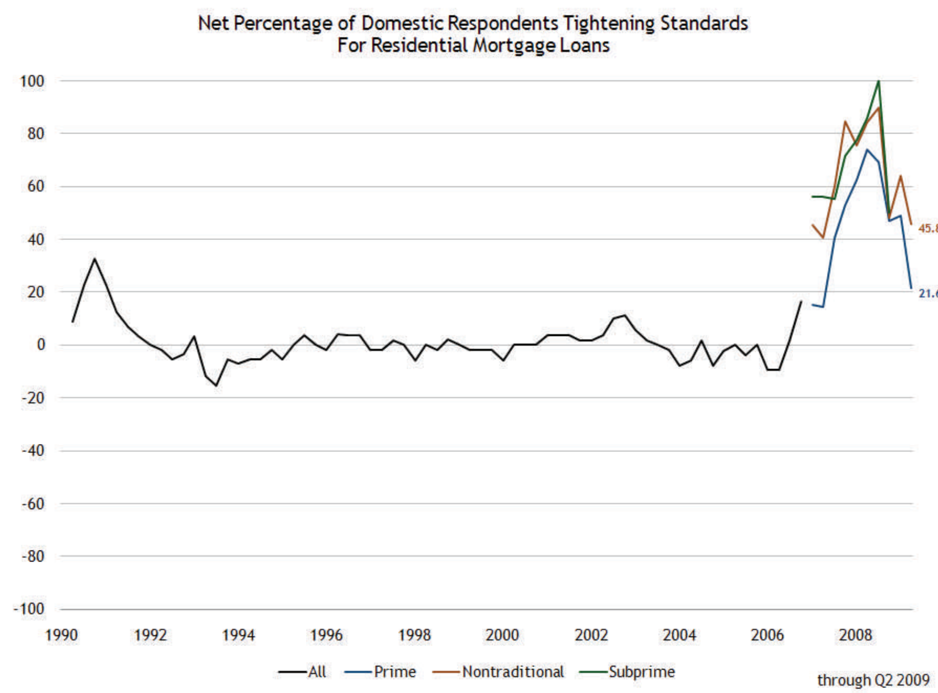
The rate of tightening for loans to businesses edged downward for the third consecutive survey.



Source: Federal Reserve Board of Governors

- On net, 31.5 percent of domestic respondents reported tighter standards on commercial and industrial loans to large and midsize firms during the second three months of 2009, continuing the decline that peaked at 83.6 percent in the November 2008 survey.
- On net, 34 percent of domestic respondents reported tighter standards on loans to small firms, down from more than 42 percent in April and 74.5 percent in the January survey.

The net percentage of domestic banks tightening standards on prime residential real estate lending fell to 21.6 percent, down from 74 percent one year ago.



Source: Federal Reserve Board of Governors

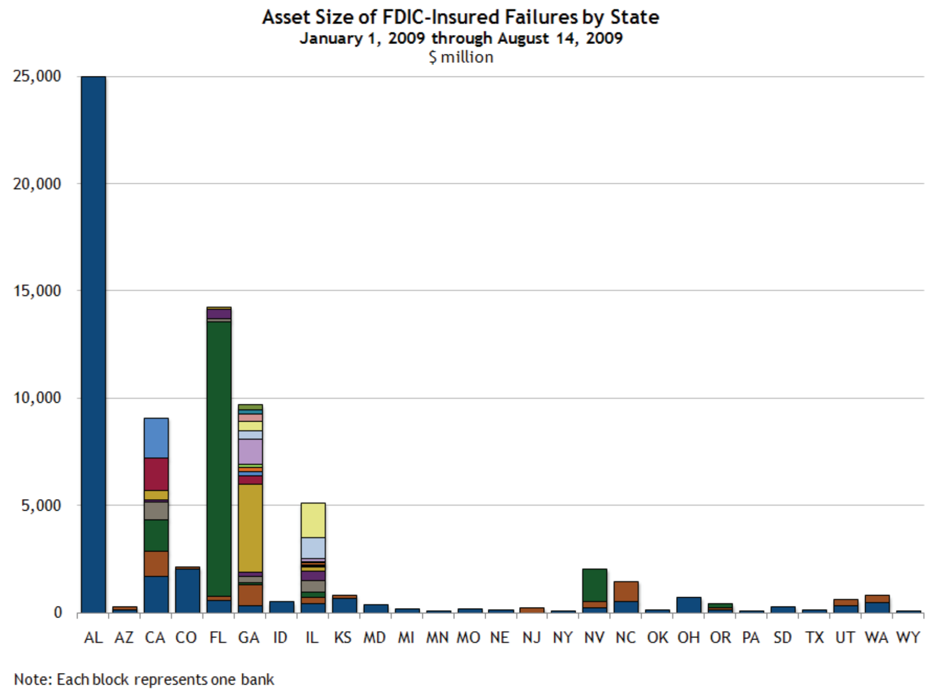
- On net, 45.8 percent of domestic respondents reported having tightened their lending standards on nontraditional residential mortgages during the past three months, compared with 64 percent in April.

Bank Failures

Summary

Colonial Bank, based in Montgomery, Ala., became the largest bank failure in 2009 when it was closed by the Alabama State Banking Department on August 14. As of June 30, Colonial Bank had total assets of $25 billion and total deposits of approximately $20 billion.

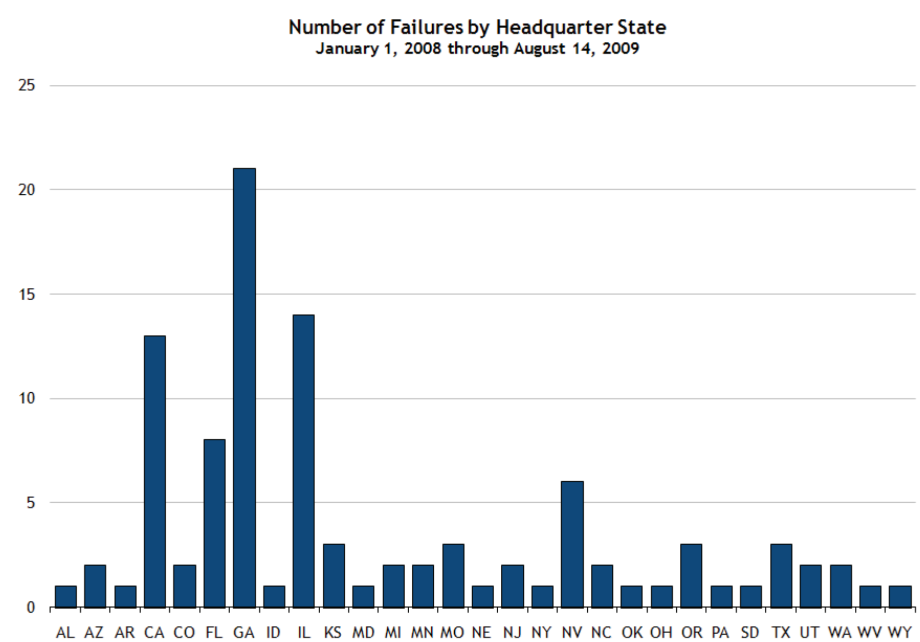
A total of 77 FDIC-insured banks have failed this year.



Source: FDIC Press Releases

- Branch Banking and Trust (BB&T), based in Winston-Salem, N.C., will assume all of the deposits of Colonial Bank; Colonial operated 346 branches in Alabama, Florida, Georgia, Nevada, and Texas.
- Regulators also closed four other banks on August 14. Dwelling House S&LA, Pittsburgh ($13.4 million in assets); Union Bank N.A., Gilbert, Ariz. ($124 million in assets); Community Bank of Arizona, Phoenix ($158.5 million in assets); and Community Bank of Nevada, Las Vegas ($1.52 billion) were each closed by their respective regulators on August 14.

A total of 102 bank failures have occurred since the beginning of 2008. Georgia leads the nation with 21, followed by Illinois (14), California (13), Florida (8), and Nevada (6).

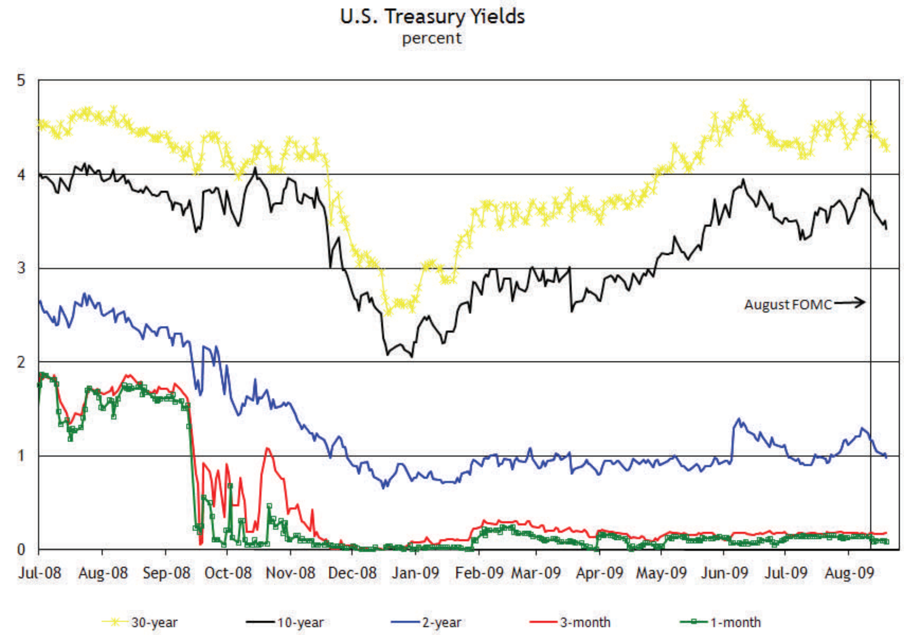


Source: FDIC Press Releases

Financial Market Indicators

Summary

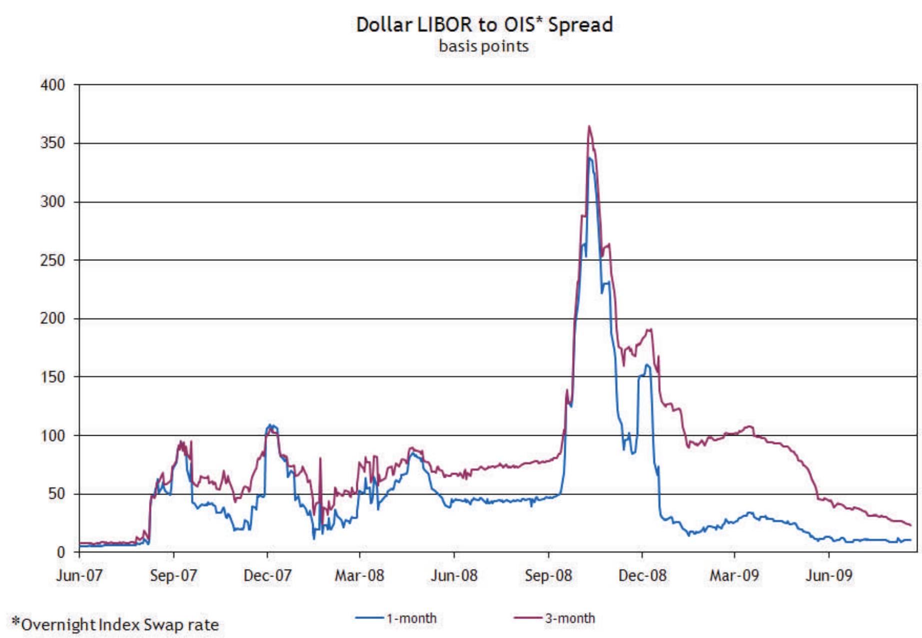
Longer-dated Treasury yields have declined sharply during the past week since the FOMC meeting.



Source: Bloomberg

- Since the conclusion of the August FOMC meeting last week, between August 12-19 longer-dated Treasury yields fell: The 30-year bond was down 26 bps to 4.27%, the 10-year note fell 30 bps to 3.42%, and the two-year note is 18 bps lower, to 0.98%. And T-bills were little changed: The three-month yield was 0.18%, and the one-month was 0.9%.

LIBOR-to-OIS spreads remain low, with the three-month narrowing an additional 3 bps this past week.



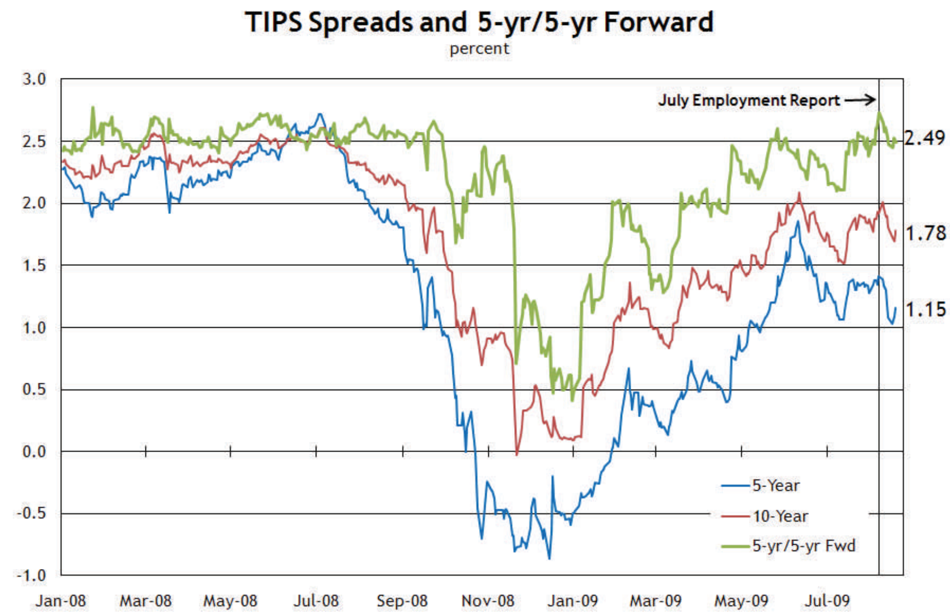
Source: Bloomberg and British Bankers' Association

- Interbank funding spreads remain at or near the precrisis levels: As of August 12, the one-month dollar LIBOR-to-OIS spread was 10.4 bps, and the three-month was 23.4 bps (down from 26.2 a week prior).

Financial Market Indicators

Summary

TIPS spreads have narrowed recently but have risen substantially from their lows last fall.



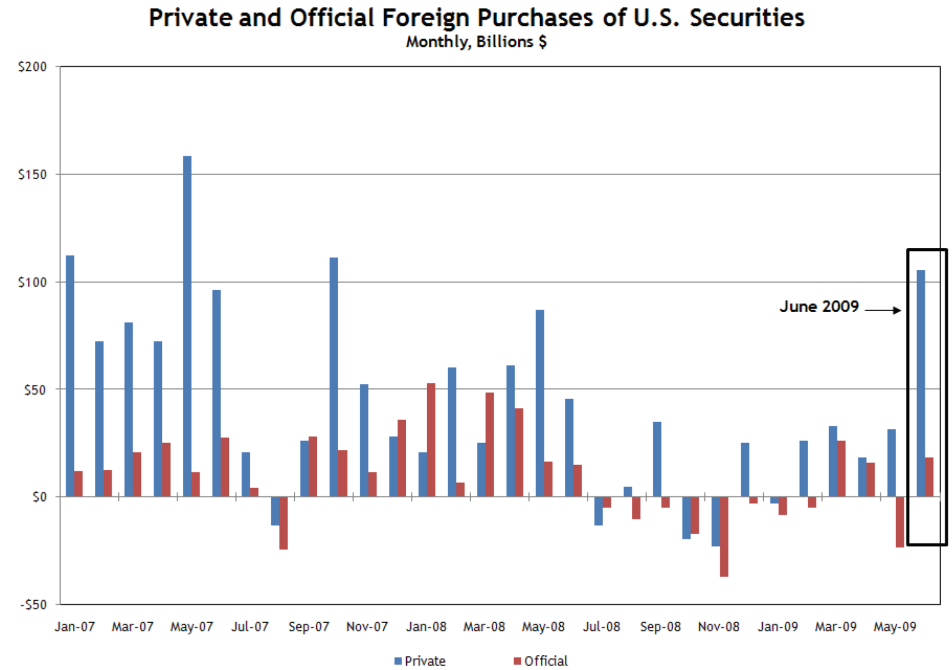
Source: Haver Analytics

- Since the July employment report's release on August 7, the five-year, 10-year, and the five-year/five-year forward breakeven rates have all fallen around 20 bps. Currently, the five-year/five-year forward rate (an estimate of the rate of expected annual inflation over five years, beginning five years from now) is around 2.5%.
- After turning negative in October 2008, not until January 20 of this year did the five-year breakeven inflation rate turn positive and has since trended higher (as has the 10-year breakeven rate).
- From their lows during last fall's period of severe deflationary fears, breakeven inflation rates have risen 1.80% and 2.01% for the five- and 10-year breakeven rates, respectively.
- But since their recent peak on June 10, the five-year breakeven rate has declined 71 bps, and the 10-year rate has declined 30 bps.

Cross-Border Financial Flows

Summary

The June Treasury International Capital (TIC) report showed a larger than expected net increase in foreign purchases of U.S. long-term securities and greater demand by private, versus official, foreign investors.



Source: U.S. Treasury

- The June TIC data surprised to the upside, showing a net $90.7 billion increase in foreign purchases of U.S. long-term securities; the Bloomberg consensus was for only a $17.5 billion increase.
- Of particular interest was the much greater than anticipated increase in net private purchases of domestic securities, up $105.2 billion, the highest monthly increase since October 2007. Official purchases (made mostly by foreign central banks) rose $18.4 billion.
- Monthly net TIC flows (the more holistic measure of cross-border portfolio financial flows) were down by $31.2 billion, with -$27.7 billion net foreign private flows and -$2.5 billion net foreign official flows. Bloomberg expected a positive $23 billion net monthly change.