FEDERAL RESERVE BANK *of* ATLANTA

August 26, 2009

Financial Highlights

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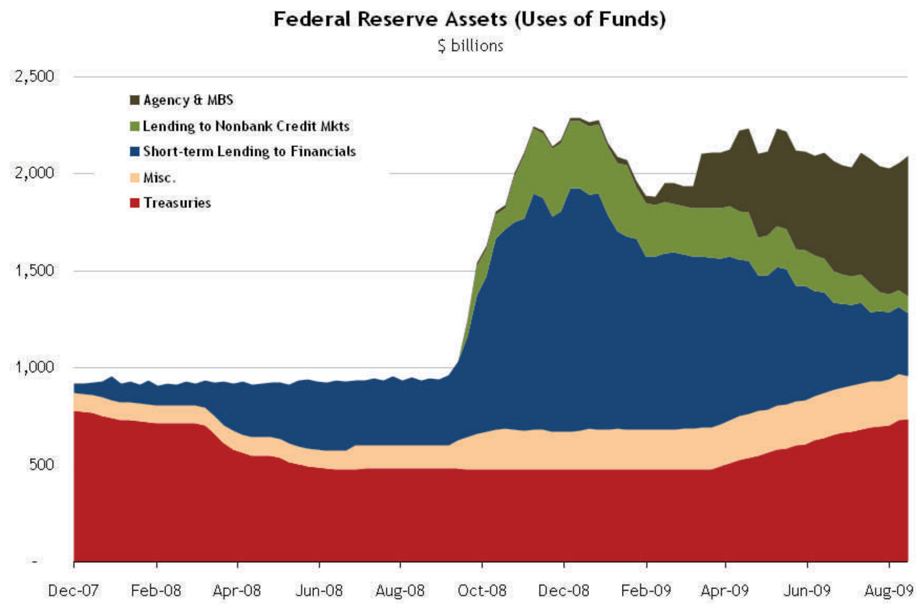
Federal Reserve

Summary

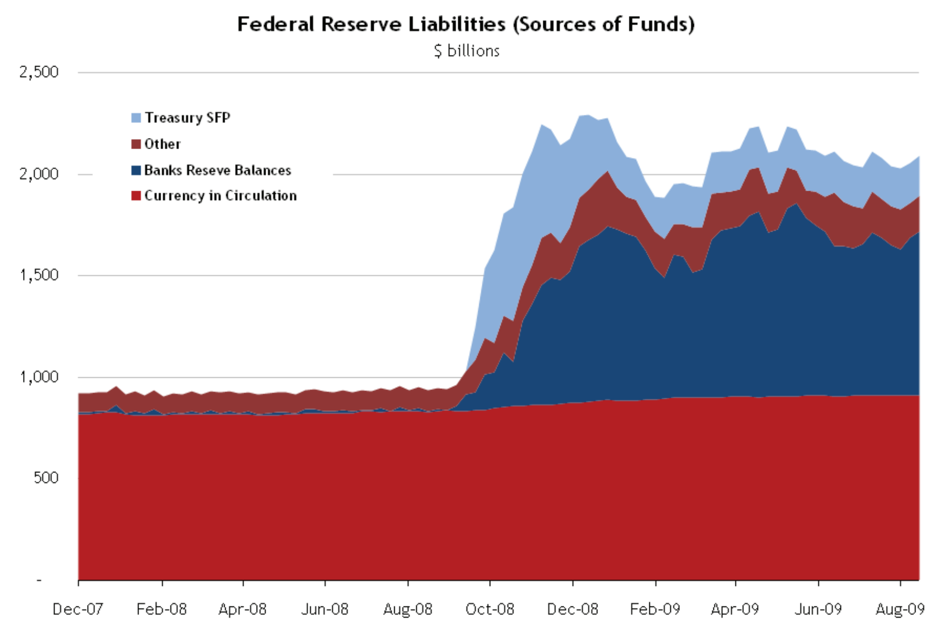
The size of the Fed's balance sheet has largely been flat since March, remaining within a range of $2 trillion to $2.2 trillion.



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 two TAF operations held in August continued to be undersubscribed as the amount of bids submitted for funding have declined. The 84-day and 28-day operations received approximately $43 billion and $73 billion in propositions, respectively. Thus, roughly $116 billion in new loans were rolled over, which replaced about $138 in maturing TAF funds (leaving the remaining $22 billion to roll off). Total TAF credit outstanding was $221 billion as of August 19.

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



SFP = Supplementary Financing Program

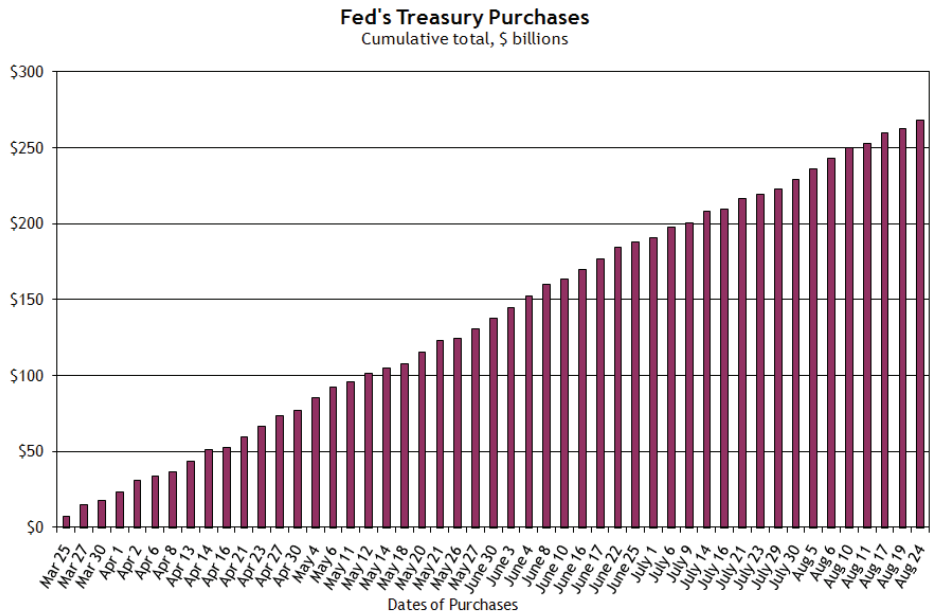
Source: Federal Reserve Board

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

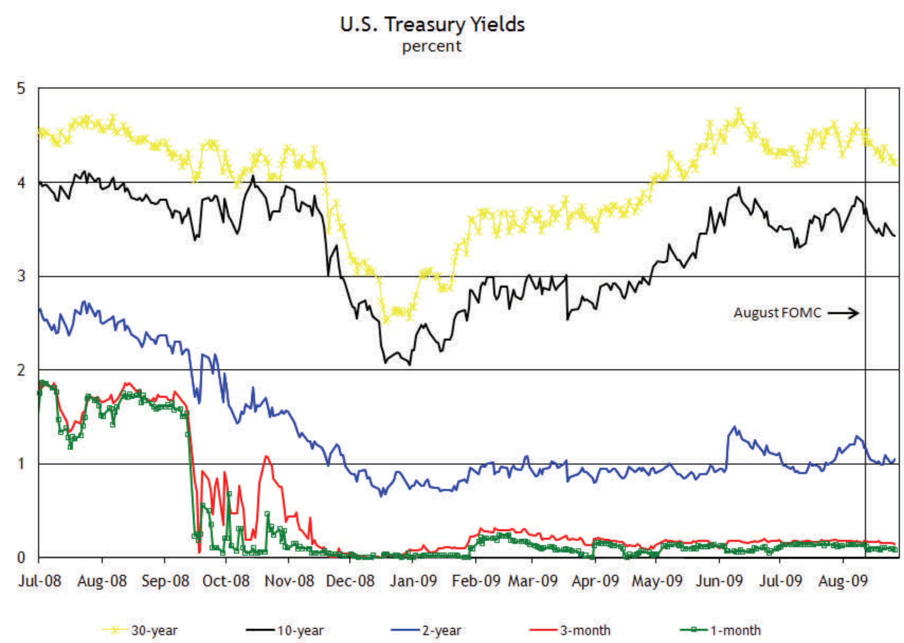
The Fed has purchased 90% of the $300 billion in Treasuries it intends to buy by the end of October.



Source: NY Fed

- The Fed has purchased a total of $268.5 billion of Treasury securities through August 26, bringing it about 90% toward its goal. Of these purchases, $4.5 billion were TIPS purchases.
- In the past week, the Fed made a purchase on August 24 for $6.1 billion in the two-to-three-year sector.
- The FOMC statement released on Wednesday, August 12, said the Fed is “in the process of buying $300 billion of Treasury securities” by the end of October. This statement implies an average of about $3.5 billion in purchases per week.

The Treasury yield curve flattened somewhat as longer rates have edged lower since the August FOMC meeting.



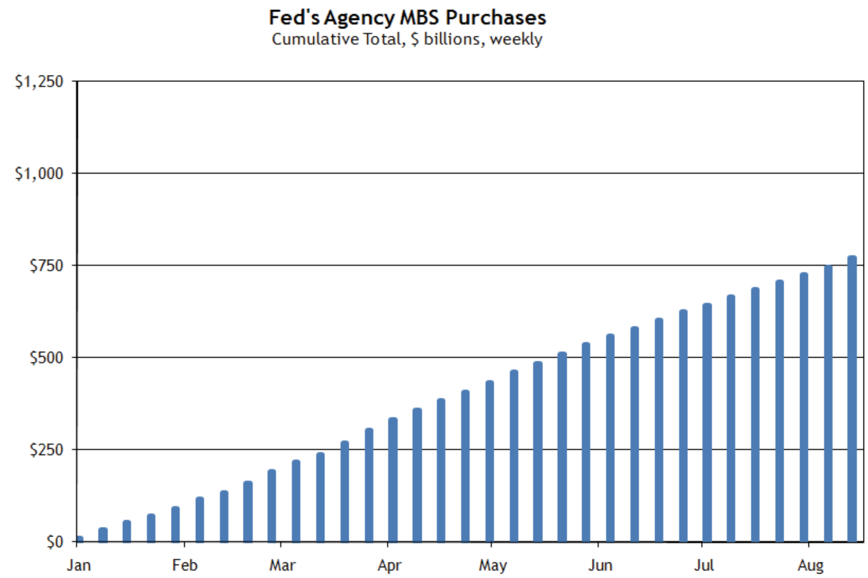
Source: Bloomberg

- In the past week, between August 19-26, longer-dated Treasury yields fell: The 30-year bond was down 8 basis points (bps) to 4.21%, the 10-year note fell 2 bps to 3.43%, but the two-year note rose 6 bps to 1.05%.

Federal Reserve

Summary

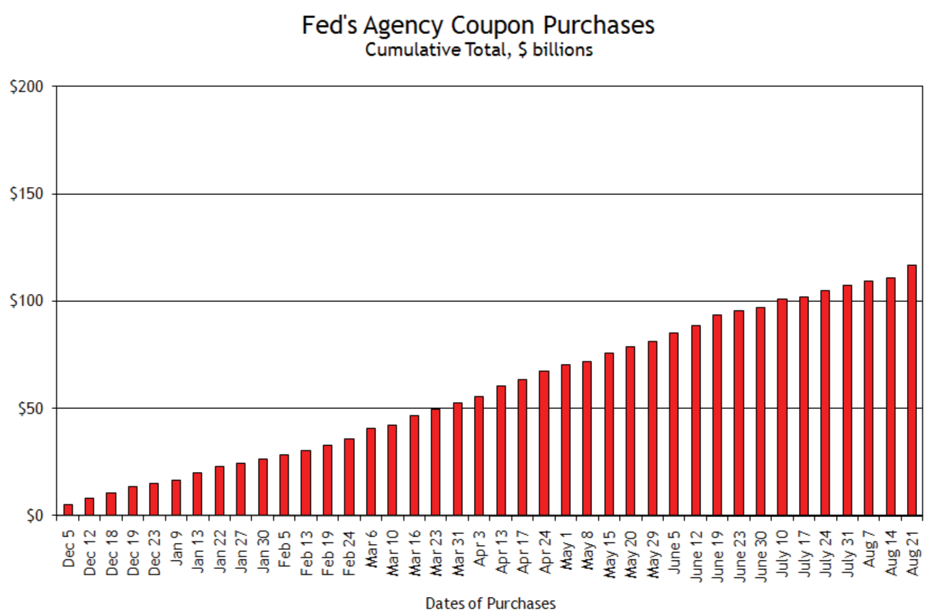
The Fed has now purchased about $770 billion in agency MBS through August19.



Source: NY Fed

- The Fed purchased a net total of $25 billion of agency MBS between August 13 and 19, bringing its total purchases up to about $770 billion, and by year-end the Fed will purchase up to $1.25 trillion.

The Fed has purchased $117 billion of agency debt and plans to purchase up to $200 billion by year-end.



Source: NY Fed

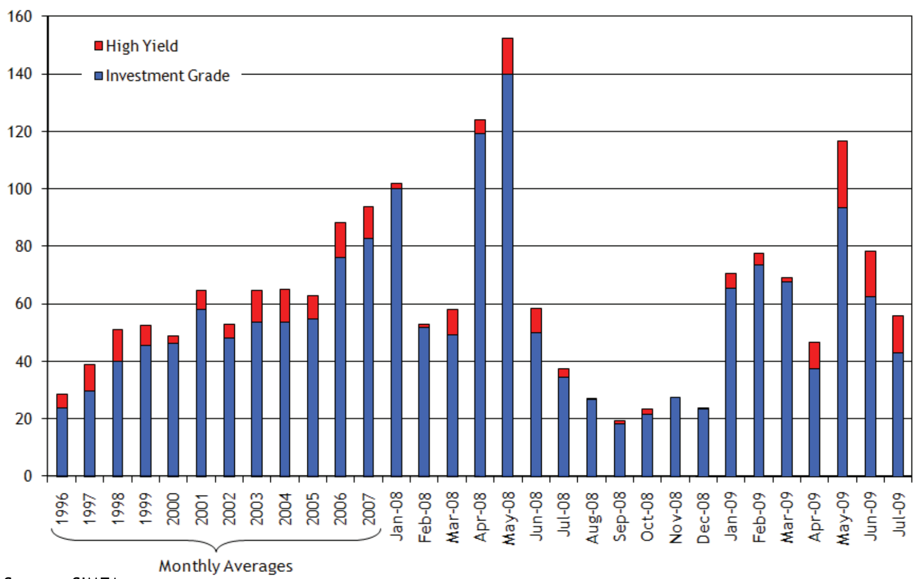
- The Fed purchased $5.6 billion of direct agency obligations on August 21, which is its largest-ever weekly purchase since the program began in December 2008. That amount brings its total to $116.6 billion, about 60% toward its goal of $200 billion by year end.
- During the past three months the Fed's average purchase of agency debt has been about $2.9 billion per week.

Corporate Bonds

Summary

While corporate bond issuance appears to have slowed somewhat in July, issuance in 2009 has been robust after slowing sharply in the second half of 2008.

Corporate Bond Issuance
$ billions

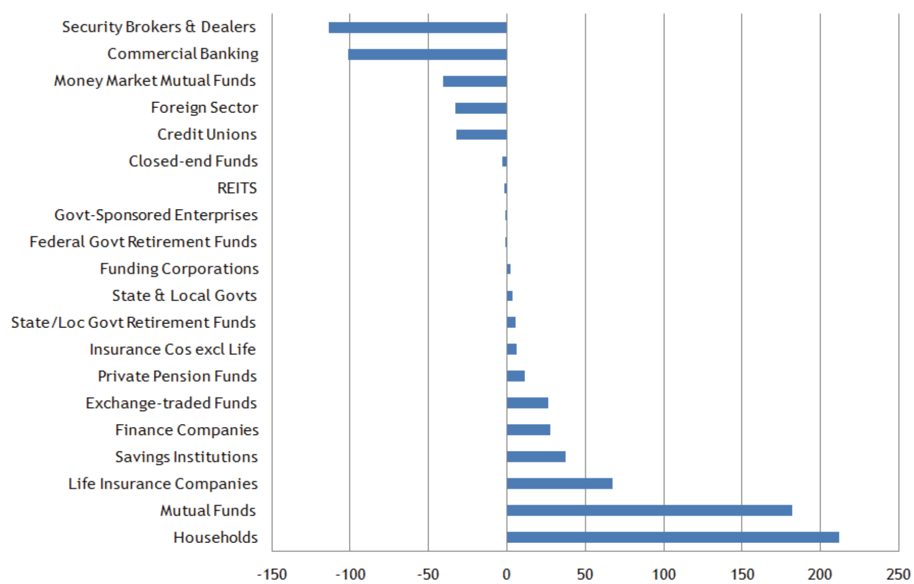


Source: SIMFA

- Combined, new bonds issued by high-yield and investment-grade borrowers declined by nearly 30% in July to about $56 billion. Nevertheless, average monthly issuance from January-July 2009 of about $63 billion is more than twice the $29 billion seen in the second half of 2008 and is in line with average issuance of about $62 billion per month since 1996.

Looking at flow of funds data, households and mutual funds were the largest net purchasers of bonds in the first quarter of 2009.

Q1 2009 Net Purchases of Corporate and Foreign Bonds by Sector
$ billions, SAAR



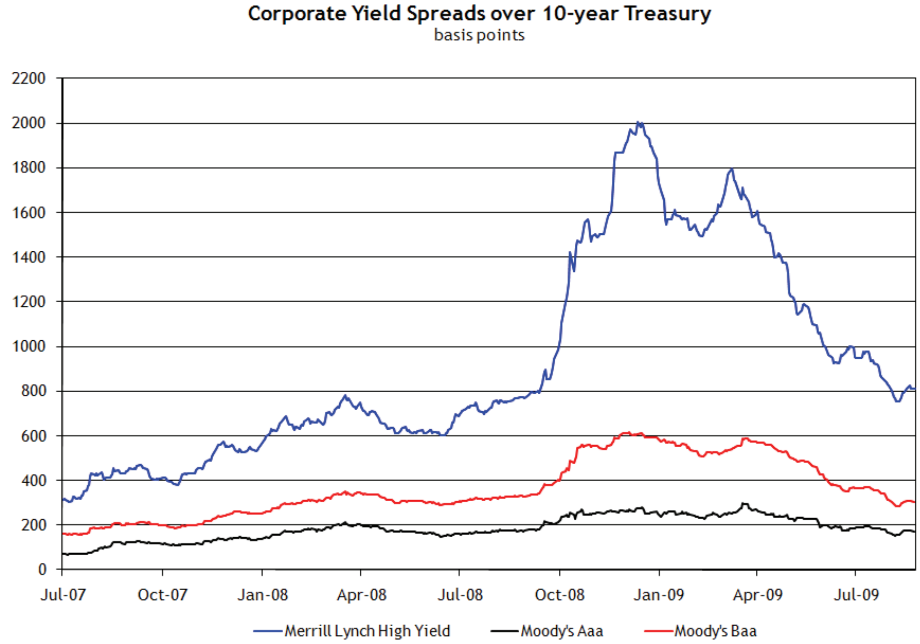
Source: Federal Reserve Board Flow of Funds

- The flow of funds show total net corporate and foreign bond issues of $257 billion in Q1. Households and mutual funds were the two largest net purchasers, acquiring $212 billion and $182 billion in bonds, respectively. For households, which held about 18% of bonds outstanding in Q1, this marks a turnaround from the second half of last year, when they had combined net sales of $372 billion in Q3 and Q4.
- Looking at issuers of bonds, nonfinancial corporate business saw a large jump with net issues of $570 billion in Q1, following $190 billion in Q4. Net issuance by the financial sector continued to fall, contracting by $439 billion in Q1 after falling by $610 billion in Q4.

Corporate Bonds

Summary

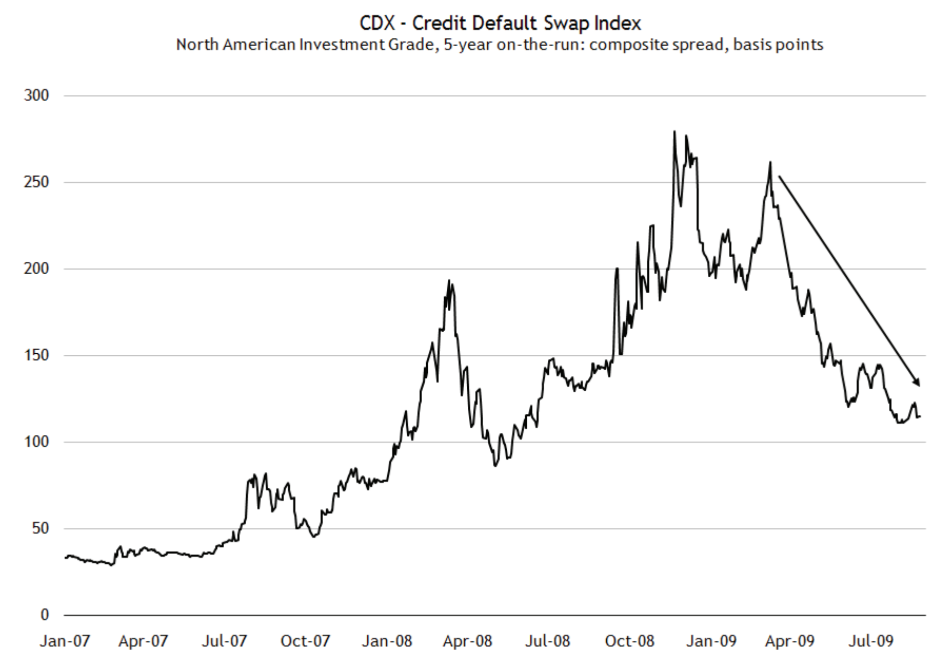
While corporate bond risk spreads have edged up slightly in August, the longer-term trend shows one of significant reduction in credit risk premia.



Source: Merrill Lynch, Federal Reserve Board

- While the decline in spreads combined with increased bond issuance points to improved access to the corporate bond market compared with the second half of last year, there is likely still significant investor concern over perceived credit quality. For example, Moody's Investor Service reports that "global speculative-grade corporate default rate rose to 10.7% in July from a revised 10.3% in June." Furthermore, Moody's expects the "U.S. speculative-grade default rate to peak at 12.7% in 2009's final quarter," up from 11.5% in July. Additionally, Bloomberg data show Standard and Poor's has performed 1,367 ratings downgrades in the first half of the year and 211 so far in Q3. Meanwhile, upgrades were just 207 for Q1 and Q2 combined and 129 so far in Q3.

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



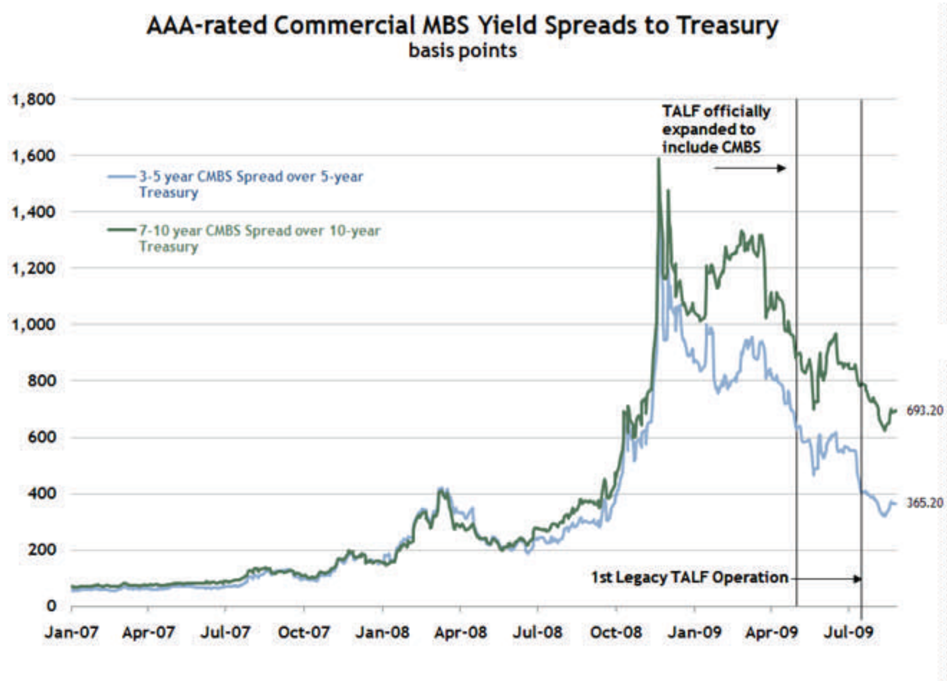
Source: Markit Group Limited/Haver Analytics

- The CDX has declined by more than one-half from its recent peak of about 262 bps in March 2009 to its current level of 115 bps. The index is now at its lowest level since June 2008.

Commercial Mortgage-Backed Securities

Summary

Yield spreads on AAA-rated CMBS widened the week prior to the latest CMBS TALF but have narrowed considerably since the start of the year.



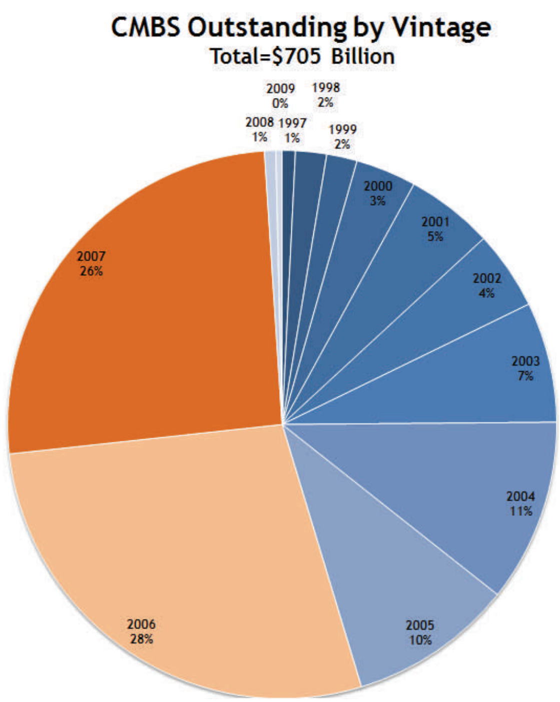
Source: Merrill Lynch and Bloomberg

- The three-to-five year CMBS yield spread over the benchmark interest rate is 507 bps lower than January 2009 levels and the seven-to-ten year is 346 bps lower.

Financing totaling $2.28 billion was provided at the latest CMBS TALF operation on August 20 compared with $.67 billion provided at the previous operation July 16. There have been no loans to purchase newly issued CMBS.

It was announced Monday that the TALF will be extended three months for legacy CMBS issues and six months for new CMBS issues. The program was originally scheduled to expire Dec. 31, 2009.

Over 50% of the $705 billion in CMBS currently outstanding was created in 2006 and 2007.



Source: Bloomberg

Commercial Mortgage-Backed Securities

Summary

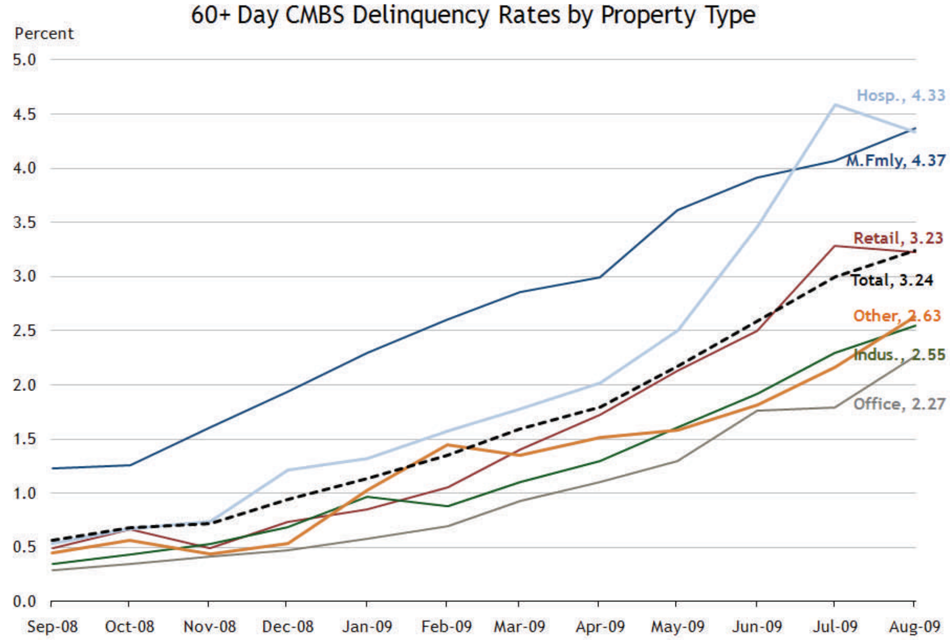
Delinquency rates on all property types of CMBS have trended upward since September 2008.

Cumulative losses on commercial mortgage-backed securities increased dramatically from 2006Q4 to 2007Q1 and have been steadily increasing ever since.

Year	Cumulative Losses ($Billions)
2009Q2	$5.0
2008Q2	$4.4
2007Q2	$3.9
2006Q2	$0.7

Source: Bloomberg

60+ Day CMBS Delinquency Rates by Property Type



Source: Bloomberg

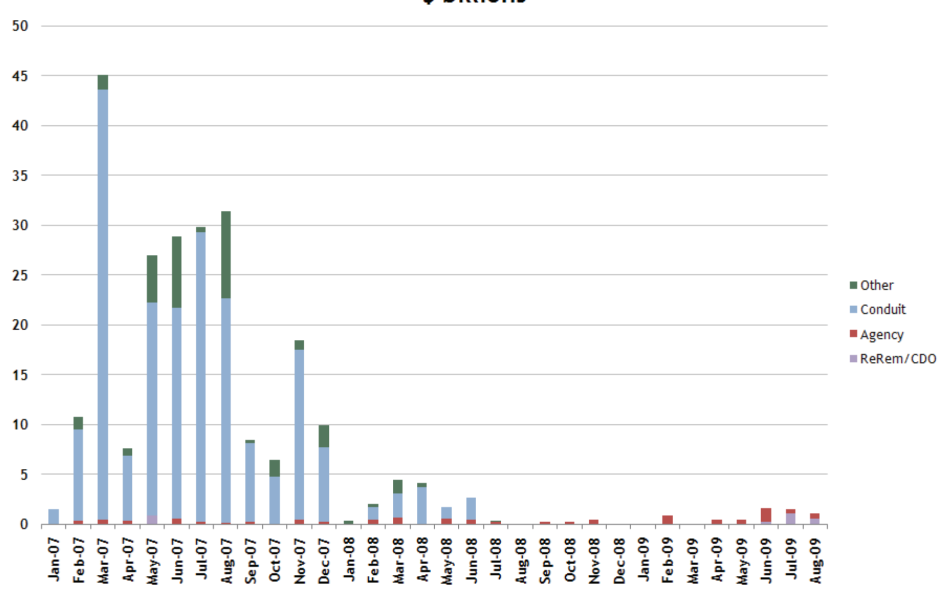
- The 60-day and over delinquency rate (which includes 60 days and over, 90 days and over, foreclosure, and REO) for all property types has increased from 0.6% in September 2008 to 3.2% in August 2009 and is up 0.2 percentage points from last month.
- Retail and hospitality are the only property types in which delinquency rates fell from July to August. The retail delinquency rates fell 0.03 percentage points to 3.23%, and the delinquency rates on hospitality properties fell 0.26 percentage points to 4.33%.

CMBS issuance remains depressed.

Since July 2008 there has only been issuance in the form of agency and re-REMICS/CDOs.

The bundling of securities to avoid downgrades remains a major part of issuance as 19.6% of U.S. CMBS are currently on watchlist for downgrade.

Commercial MBS Issuance by Type
$ billions



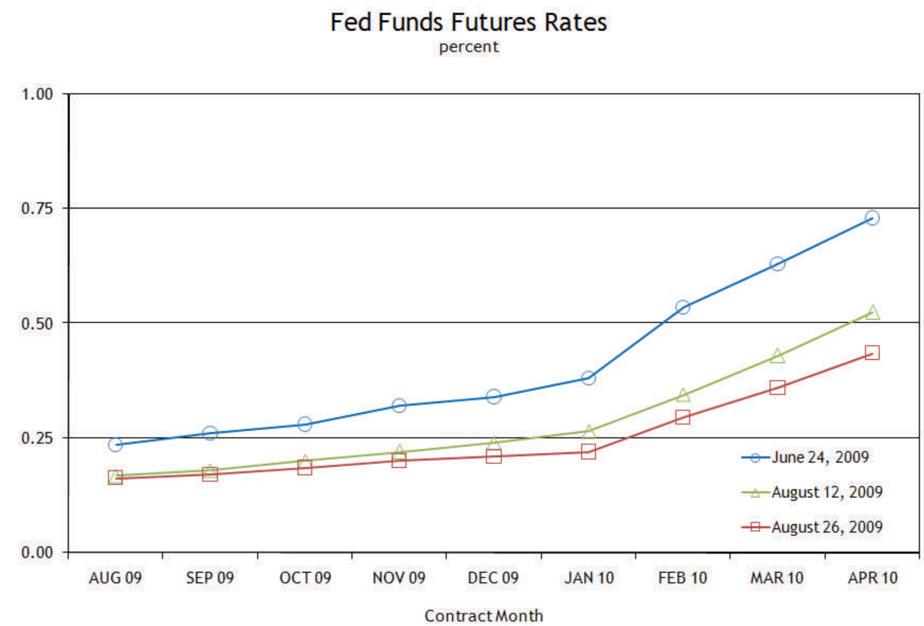
Source: Bloomberg

- So far for August, $535 million has been issued in the form of re-REMICS/CDOs and $535 million in agency issuance.

Fed Funds Futures and LIBOR

Summary

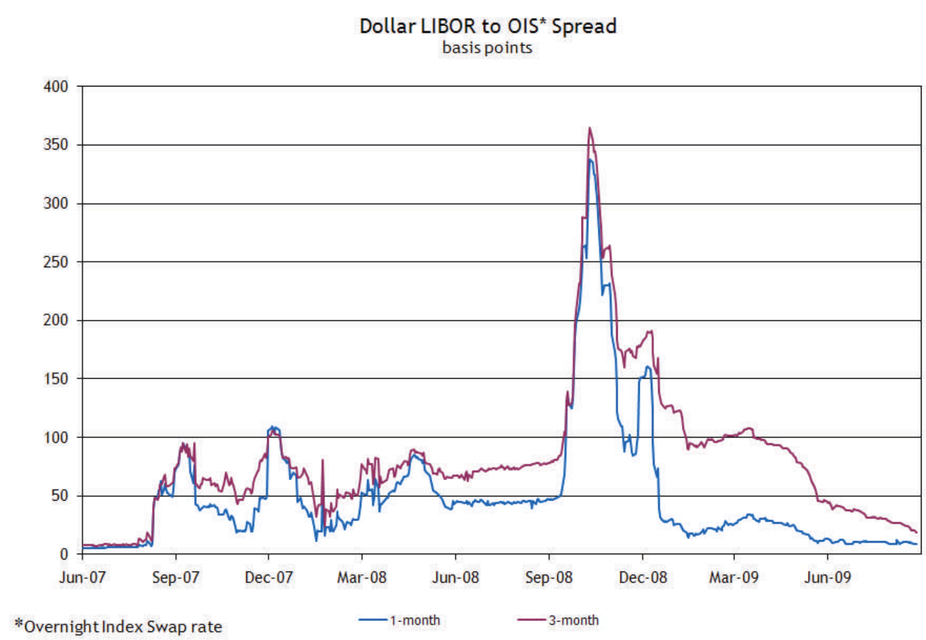
Rates on federal funds futures contracts currently imply a 25 basis point increase in the Fed funds rate in May 2010. Futures rates have moved lower since the August FOMC meeting.



Source: Bloomberg

- Since the last FOMC meeting ended on August 12, futures rates have moved lower at the far end of the curve.
- This is a continuation of downward movement from June to August and represents an extension of the market's assessment of the duration of the current target rate.

LIBOR-to-OIS spreads have resumed precrisis levels as LIBOR rates have fixed at historically low levels.



Source: Bloomberg and British Bankers' Association

- As of August 26, the one-month dollar LIBOR-to-OIS spread was 8.8 bps, and the three-month was 18.5 bps. Over the prior week the two spreads dropped 1.5 and 5 bps, respectively.
- LIBOR rates set an historic low of 0.26% and 0.37% for the one- and three-month rates, respectively, on August 26.