

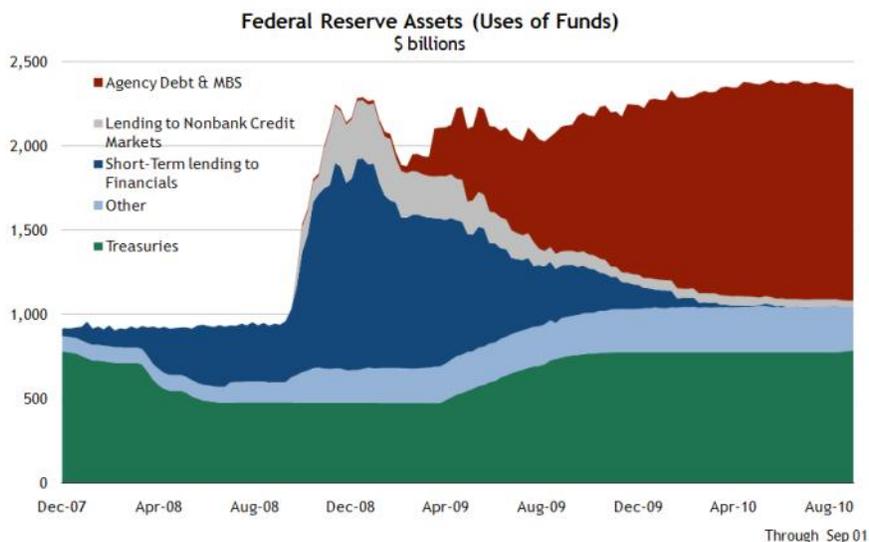
Financial Highlights

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Federal Reserve

Summary

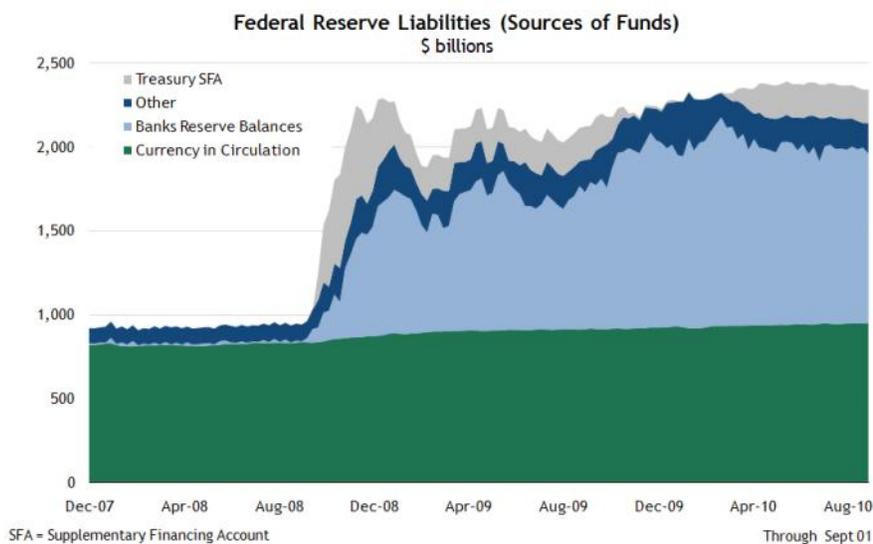
The balance sheet remained little changed, increasing \$633 million for the week ended September 1.



Source: Federal Reserve Board

- MBS and agency securities on the balance sheet remained essentially unchanged.
- Treasuries increased by \$1.7 billion.
- The TALF facility (part of lending to nonbank credit markets) declined by \$3 billion.

Bank reserve balances declined \$40.3 billion, offset by a \$39.8 billion increase in Treasury deposits with Federal Reserve banks (part of “Other”).



Source: Federal Reserve Board

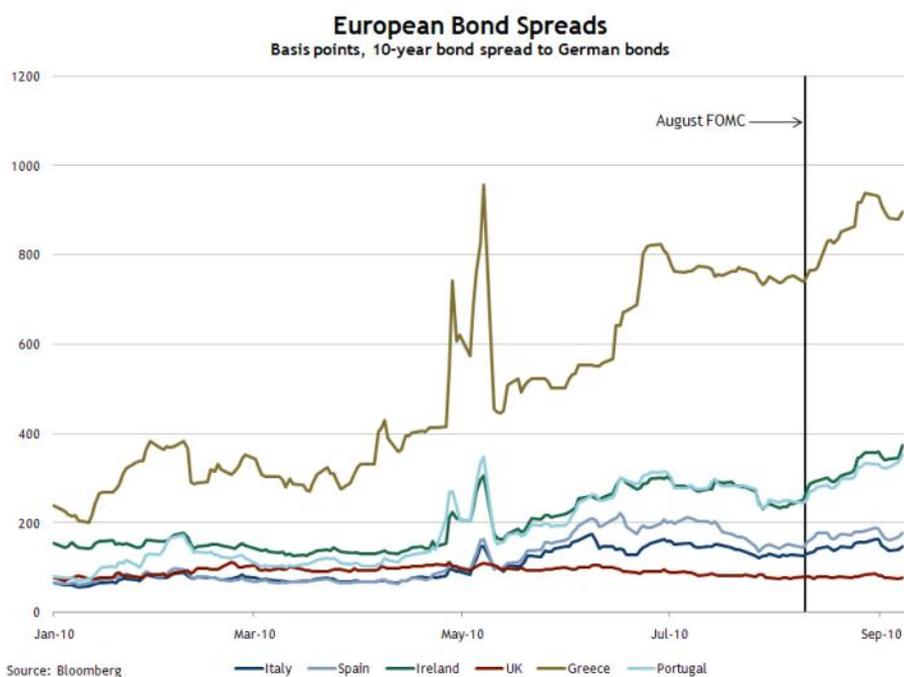
Assets: Lending to nonbanks—TALF, CPFF, AMLF, and MMLFF; Short-term lending to financials—discount window, TAF, currency swaps, PDCF, and repos; Misc.—Maiden Lanes I, II, and III, credit to AIG, and other Fed assets. **Liabilities:** Other—Reverse repos, Treasury cash holdings, and deposits with Federal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

European Debt

Summary

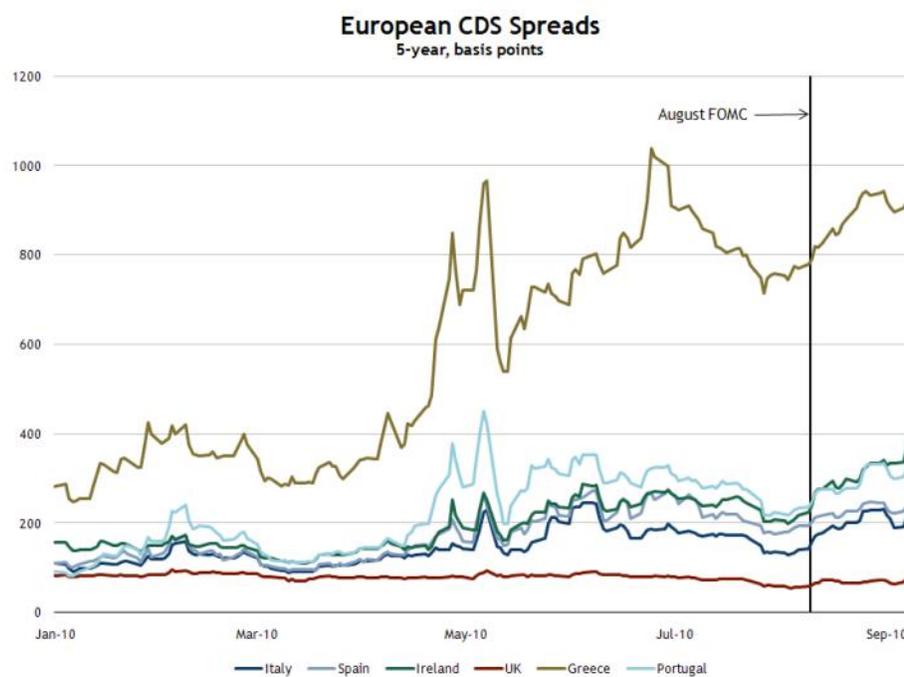
Peripheral European bond spreads (over German bonds) have risen since the August FOMC meeting.

Irish and Portuguese bond spreads are currently at all-time highs, while the spread for Greek bonds remains extremely elevated.



- Since the August FOMC meeting, the 10-year Greece-to-German bond spread has risen by 146 basis points (bps) (from 8.96% to 7.52%) through September 7. Similarly, with other European peripherals' spreads, Portugal's is higher by 99 bps during the period, and Spain's is up by 20 bps.

Similarly, CDS spreads have been widening during the past few weeks.



Source: Bloomberg

Securitization Markets

Summary

CMBS yields over Treasuries have been relatively stable since March.

AAA-rated CMBS Yield Spreads to Treasury

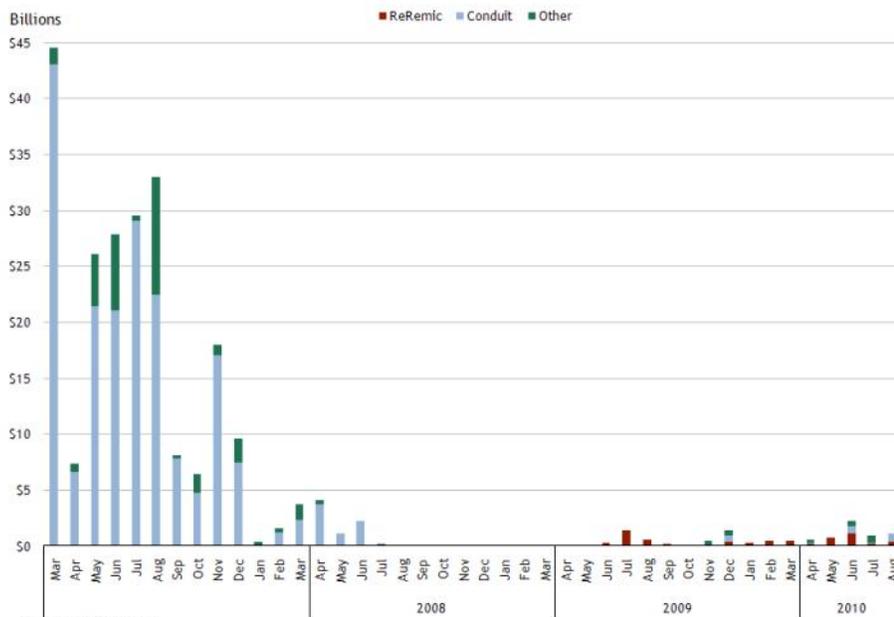


Sources: Merrill Lynch/Bloomberg

CMBS issuance remains depressed, but deals are occurring.

Re-REMIC deals remain popular, with many securities still on a watchlist for a ratings downgrade.

Commercial MBS Issuance by Type



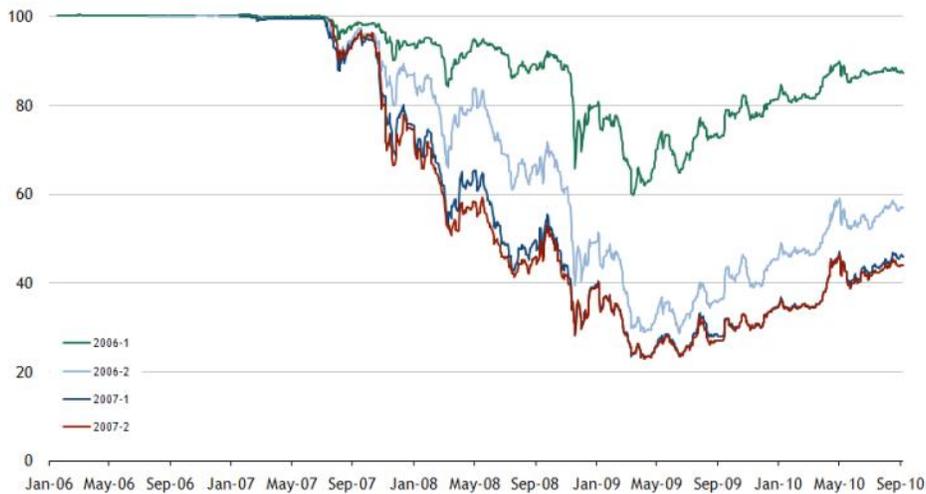
Source: Bloomberg

Securitization Markets

Summary

The ABX continues to rise across all vintages, indicating a decline in the cost to insure against default on the underlying home equity loans.

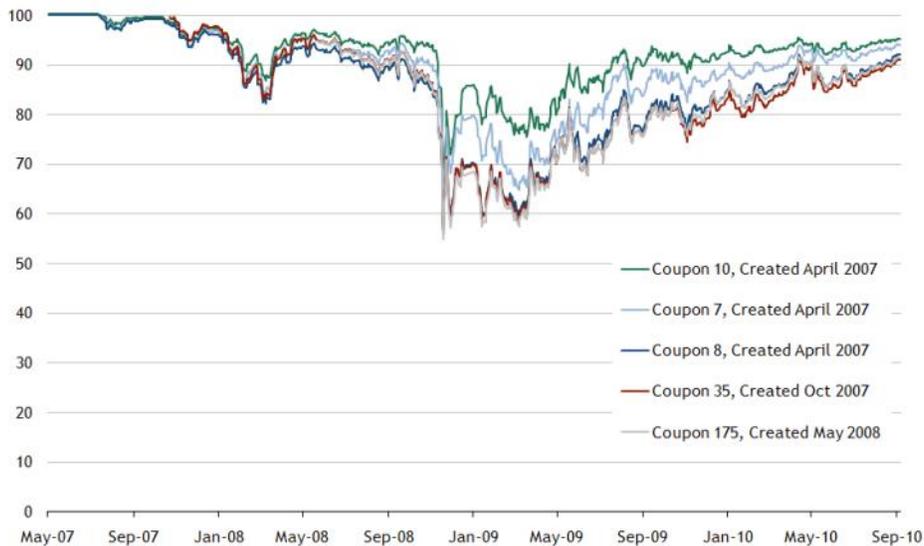
ABX.HE Indices, AAA rated by Vintage
price, points of 100%



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 continue to rise, indicating a lower cost to insure against default of commercial MBS.

CMBX.NA.AAA Indices
Composite Price, points of 100%



Source: Markit Group Limited/Haver Analytics

Mortgage Rates

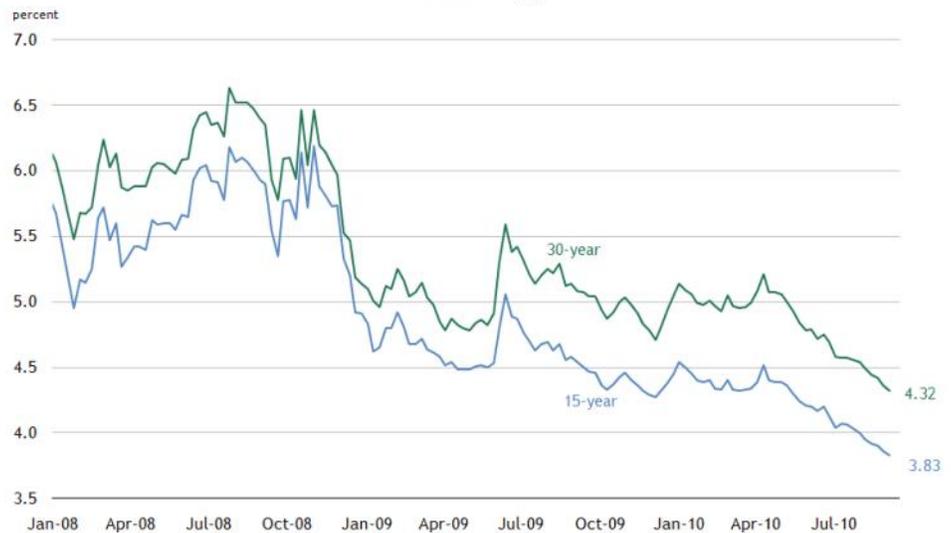
Summary

Rates for 30- and 15-year fixed mortgages fell again, reaching new record lows for the survey.

At 4.32%, the 30-year fixed rate has not been lower in the survey's 39-year history.

The 15-year rate averaged 3.83% for the first time since tracking began in 1991.

Freddie Mac Primary Mortgage Market Weekly Survey
fixed-rate mortgage rates



through September 3, 2010

Source: Federal Home Loan Mortgage Corporation/Haver Analytics

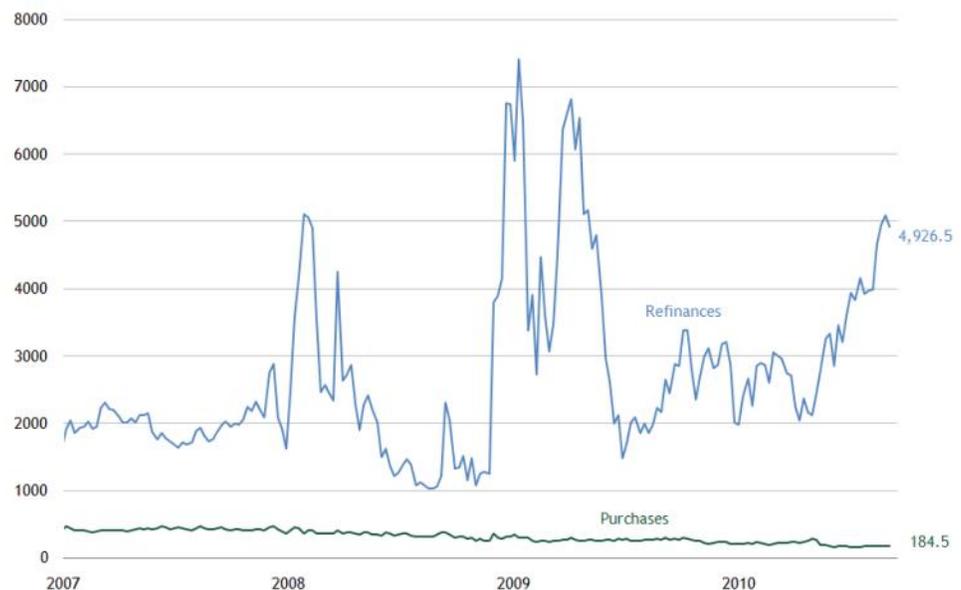
- The 30-year fixed rate averaged 4.32%, down slightly from 4.36% a week ago; the 15-year fixed rate averaged 3.83%, down from 3.86% a week ago.
- At this time last year, the 30-year fixed rate averaged 5.08%; the 15-year fixed rate averaged 4.54%.

Purchase application volume remains relatively flat despite historically low interest rates. The purchase index is up 6.3% from one week earlier and is at its highest level since May 21, 2010.

The refinance index declined 3.1% from the previous week and remains well below the peaks set in January and April 2009.

The purchase index and refinance index are measures of loan application volume reported in the MBA's Weekly Application Survey.

Mortgage Loan Applications Volume Index



Indexed to March 16, 1990 = 100

through September 3, 2010

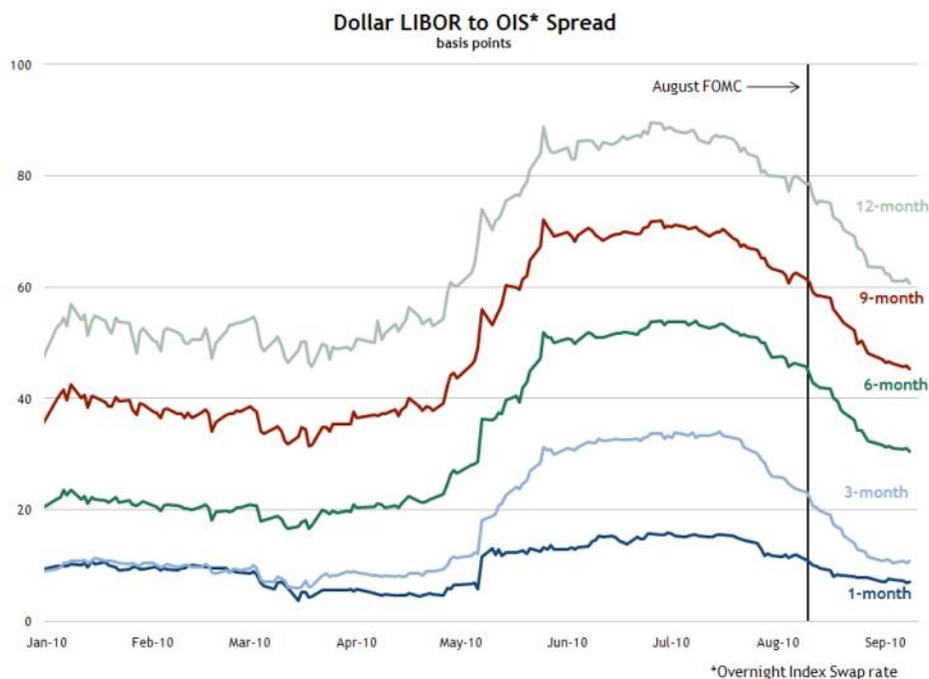
Source: Mortgage Bankers Association/Haver Analytics

- For the week ending September 3, total mortgage application volume fell 1.5% from one week earlier.
- The refinance share of mortgage activity decreased slightly, to 81.9% from 82.9% the previous week.

Broad Financial Market Indicators

Summary

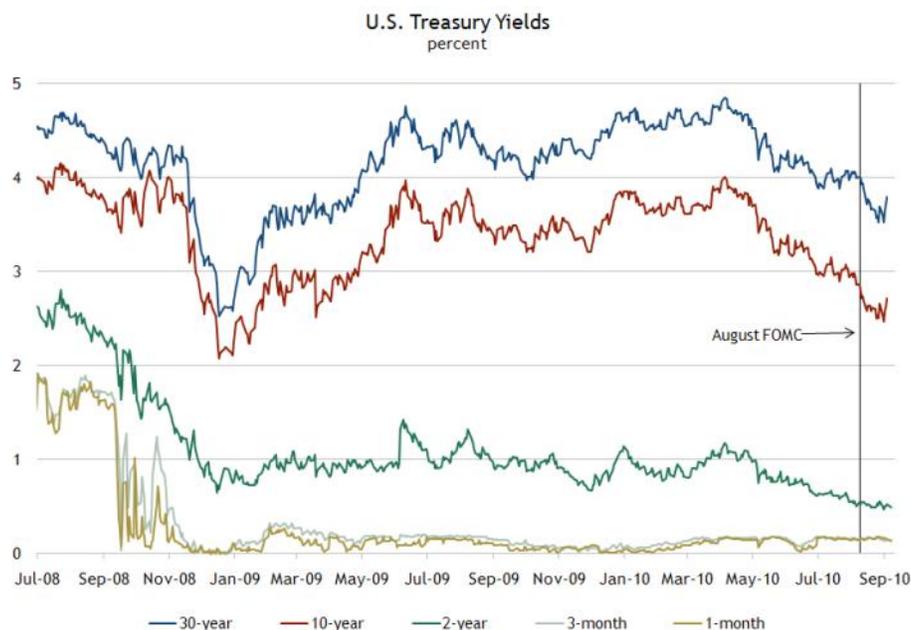
Amid broader stabilization in credit markets, LIBOR to OIS spreads have narrowed further since the August FOMC meeting.



Source: Bloomberg/British Bankers' Association

- Since the August FOMC meetings, dollar LIBOR to OIS spreads have narrowed across all tenors, but more so further out on the curve. While the one-month spread declined by 4 bps, the three-, six-, nine-, and 12-month spreads are lower by 11 bps-18 bps.

Longer-dated Treasury yields are lower since the August FOMC meeting.



Source: Federal Reserve Board

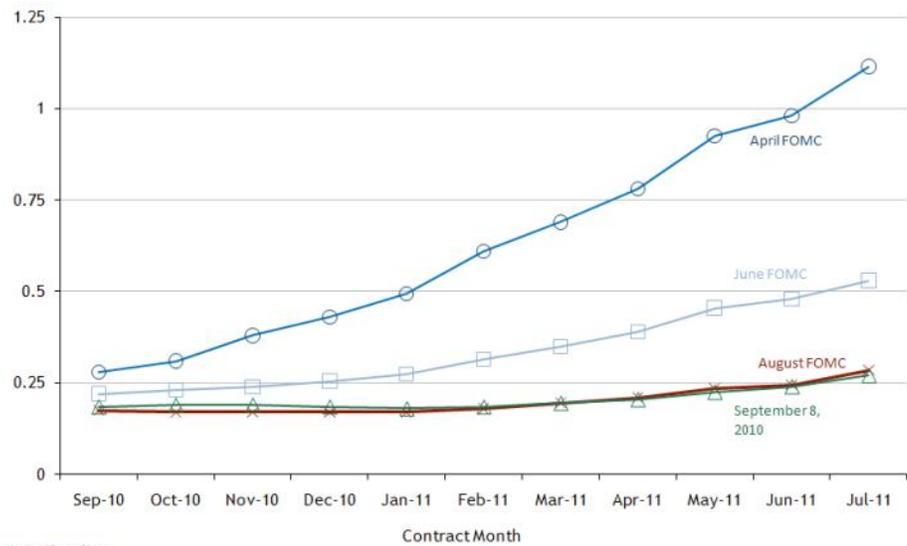
- Since the August FOMC meeting, the two-to-30-year curve of Treasury yields has steepened further: Through September 7, the 30-year bond is 33 bps lower at 3.67%, the 10-year bond is 18 bps at 2.61%, while the two-year note has fallen by only 3 bps, to 0.49%.
- T-bill rates have been roughly unchanged, with the three- and one-month bills at 0.14% and 0.13%, respectively, through September 7.

Broad Financial Market Indicators

Summary

The curve of expected rates from the fed funds futures market is relatively unchanged since the August 10 FOMC meeting.

Fed Funds Futures Rates percent



Source: Bloomberg

- Holding steady since the August 10 FOMC meeting, the fed funds futures markets shows an expectation of a rate increase in late 2011, if not early 2012.
- As of September 8, the futures market for fed funds indicates an implied rate of about 30 bps for the August 2011 contract.