FEDERAL RESERVE BANK of ATLANTA

May 25, 2011

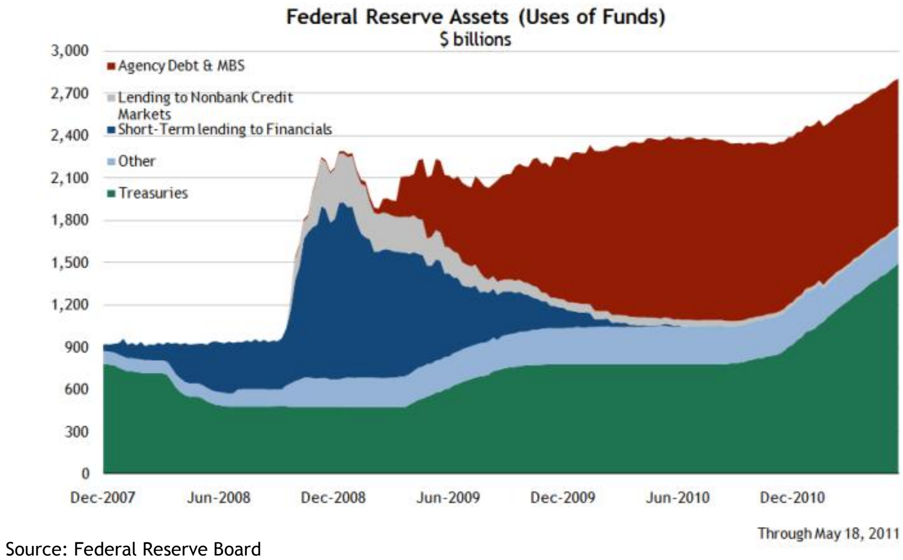
Financial Highlights

Federal Reserve

Summary

The balance sheet increased by $14 billion for the week ended May 18.

Since November 10, the balance sheet has increased $448 billion.



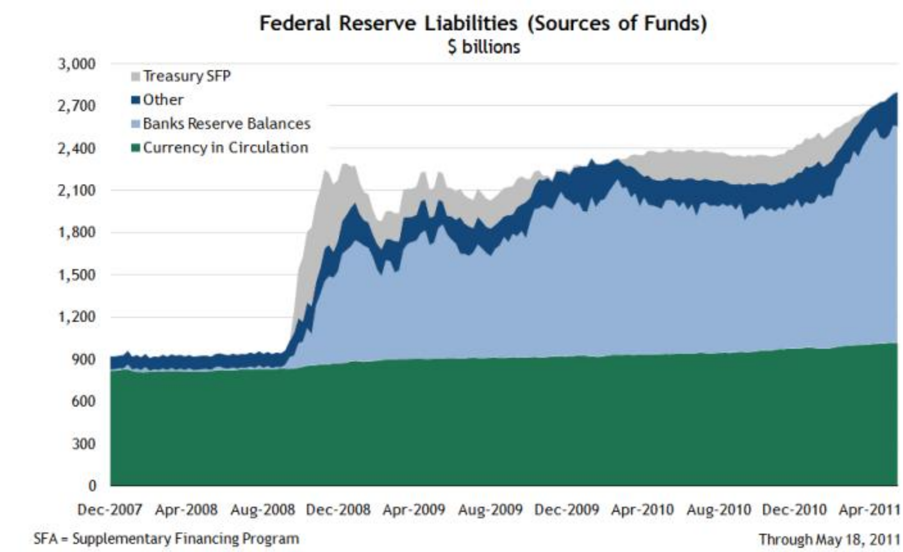
Source: Federal Reserve Board

- Treasuries increased by $29 billion while agency debt and MBS decreased $8 billion. Since November 10, Treasury securities have grown by $642 billion while agency debt and MBS have shrunk by $156 billion.
- According to the New York Fed's tentative outright Treasury operation schedule, the desk plans to purchase approximately $93 billion between mid-May and mid-June.
- Growth in the balance sheet will fluctuate from week to week as a result of the volatility of MBS prepayments.

Bank reserve balances with the Federal Reserve decreased $8 billion while Treasury deposits with Federal Reserve Banks (part of "Other") increased $22 billion.

The Treasury's Supplemental Financing Program (SFP) remained at $5 billion.

As of May 18, 2011, bank reserve balances total $1.5 trillion.



Source: Federal Reserve Board

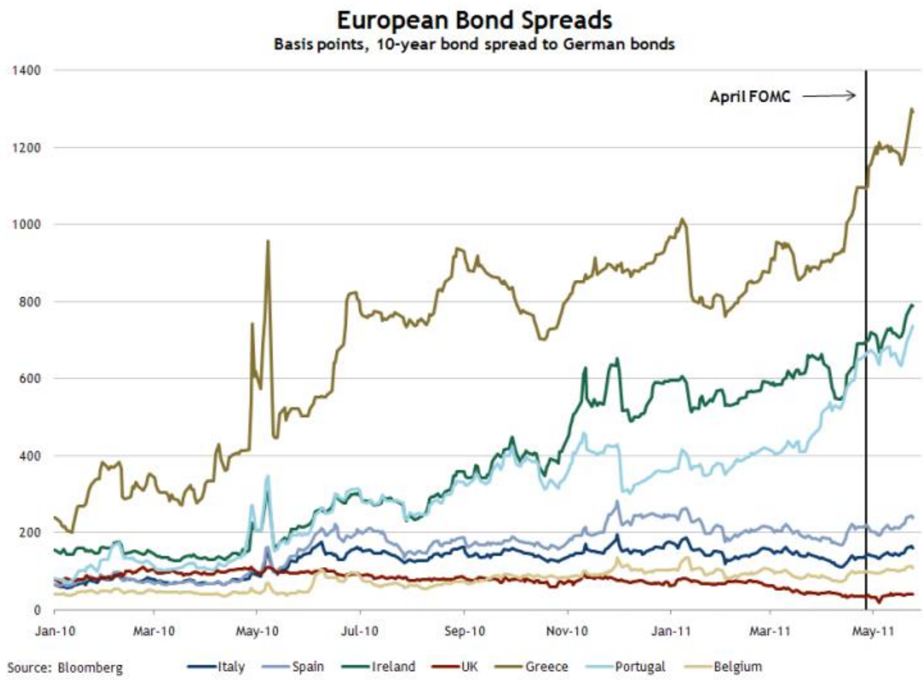
- The Treasury has announced that the Supplemental Financing Program (SFP) will be reduced to $5 billion to "provide flexibility" and delay the national debt from hitting the current ceiling of $14.29 trillion.
- The Treasury SFP was also reduced from $200 billion to $5 billion over the period September 23, 2009, to December 30, 2009, for the same reason.

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.

Europe

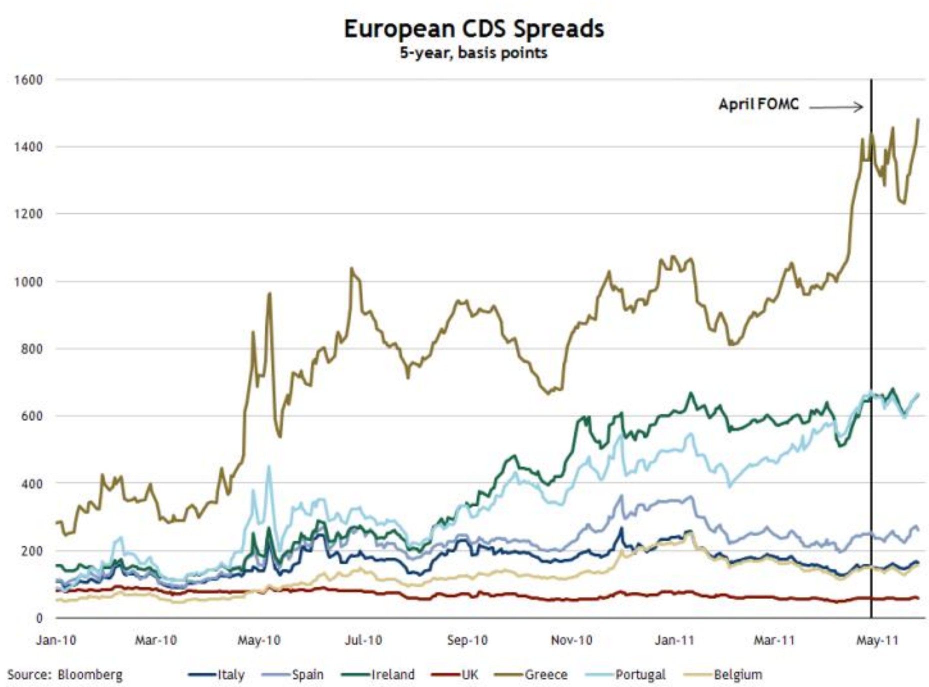
Summary

Since the April FOMC meeting, peripheral European bond spreads over German bonds continue to be elevated, with those of Greece, Ireland, and Portugal setting record highs.



- Since the April FOMC meeting, the 10-year Greece-to-German bond spread has widened by 192 basis points (bps), through May 24. The spreads for Ireland and Portugal have soared higher by 91 bps and 68 bps, respectively, over the same period.

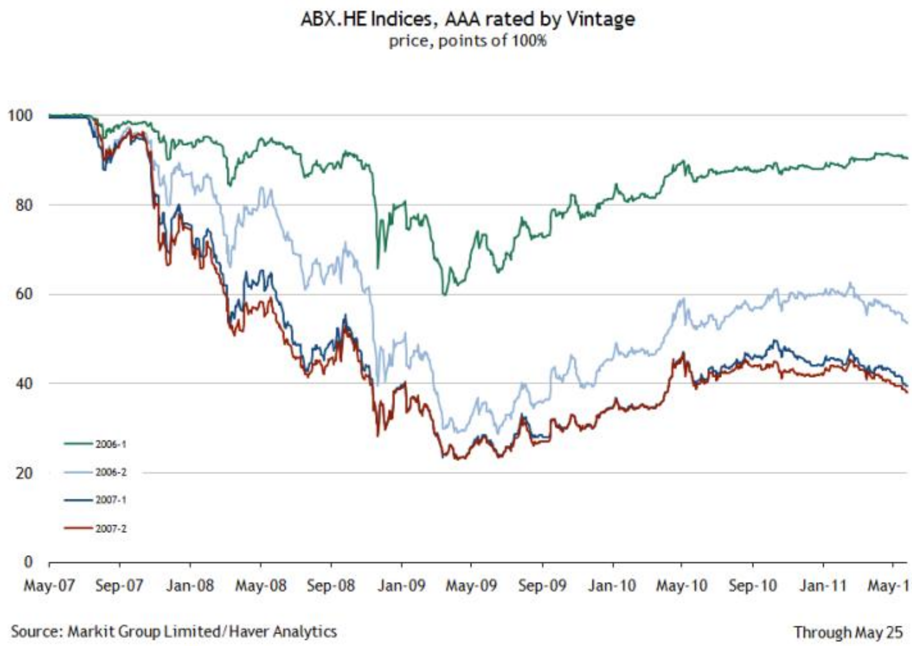
The CDS spread on Greek debt has widened about 47 basis points (bps) since the April FOMC meeting, while those on Portuguese and Irish debt continue to be high.



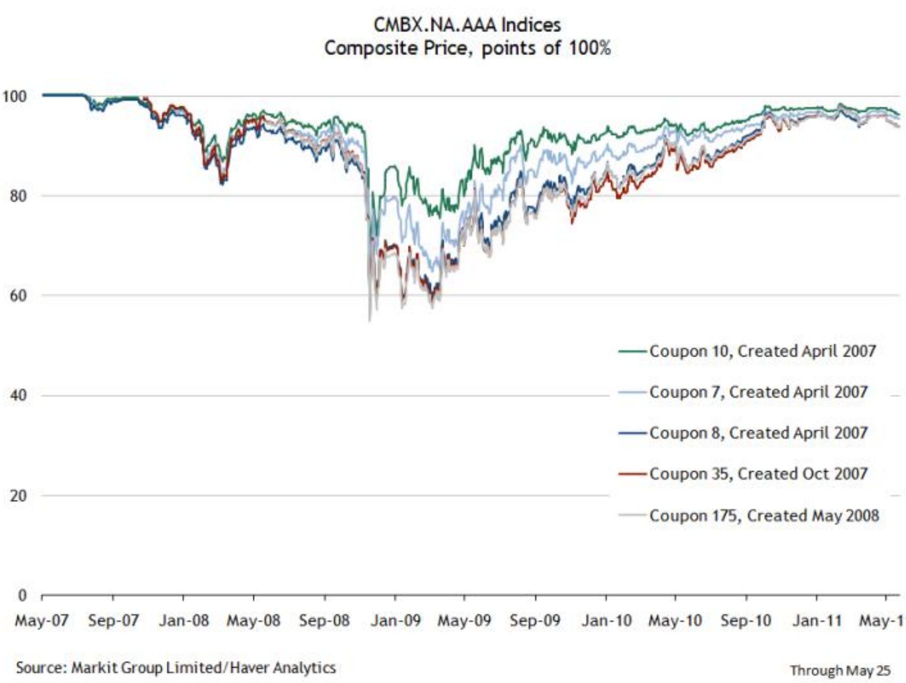
Securitization Markets

Summary

Most vintages of the AAA ABX.HE have stumbled in recent months, indicating an increase in the cost to insure against default on the underlying home equity loans.



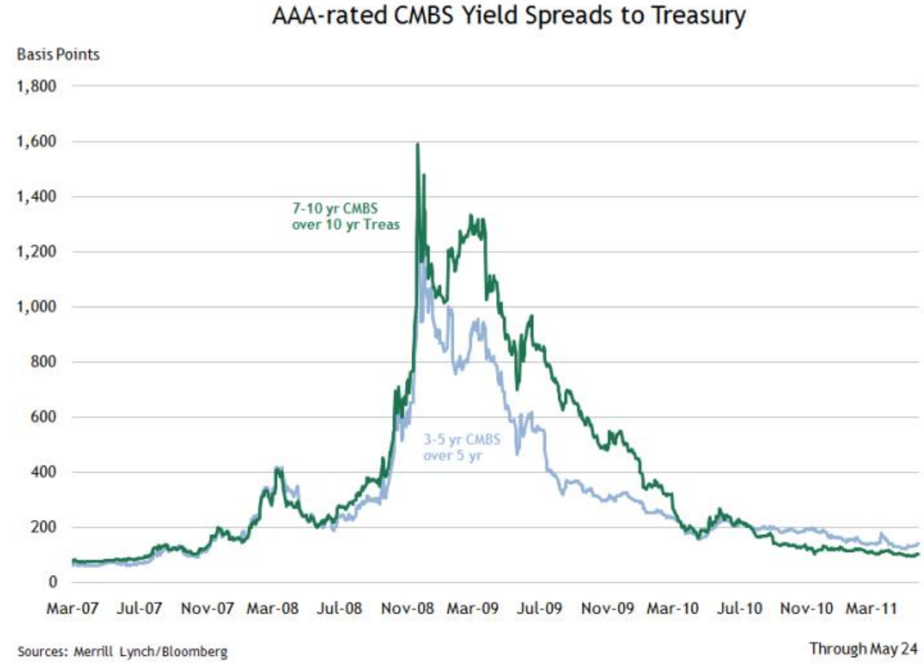
The index value of commercial MBS credit default swaps have declined in the past month. All vintages of the CMBX.NA.AAA remain close to prerecession levels. Increases in the index indicate a decrease in the cost to insure against default of commercial MBS.



Securitization Markets

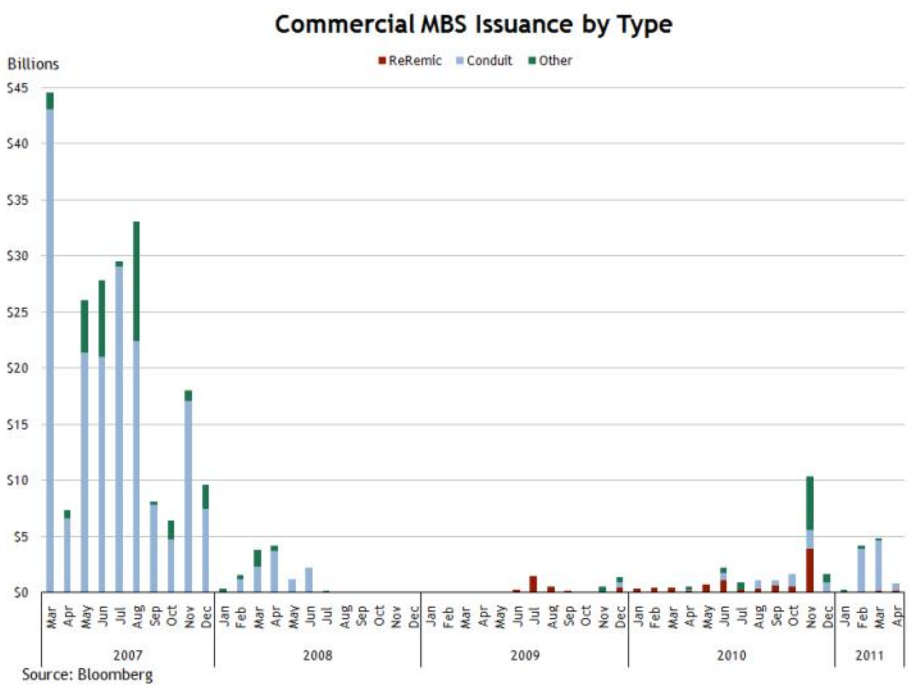
Summary

Top-rated CMBS yield spreads continue to narrow.



- Three-to-five year CMBS over five-year Treasuries are up 19 bps month over month. Seven-to-10-year CMBS over 10-year Treasuries are up 4 bps month over month.

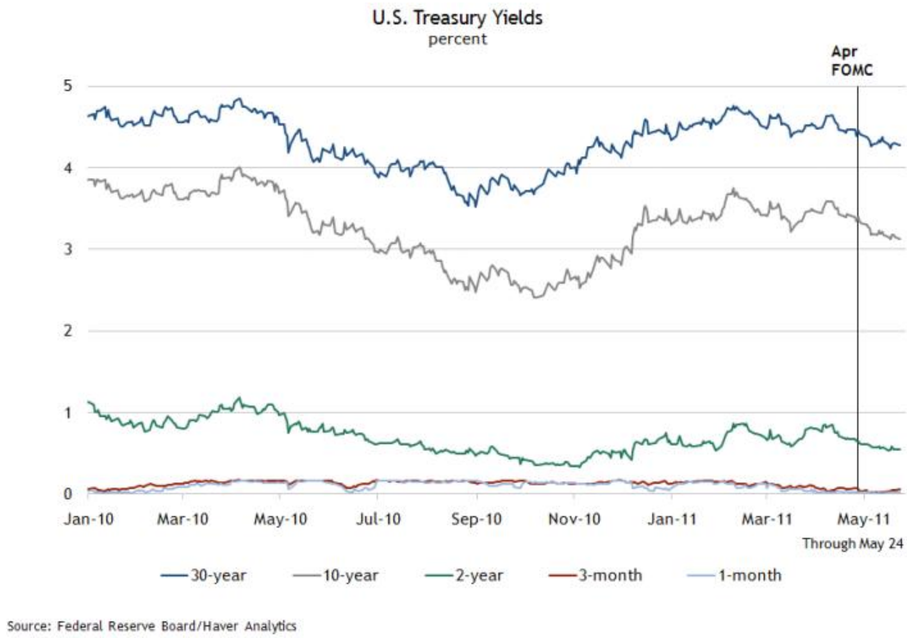
Several conduit deals were issued February, March, and April, a sign of improvement in the CMBS issuance market.



Broad Financial Market Indicators

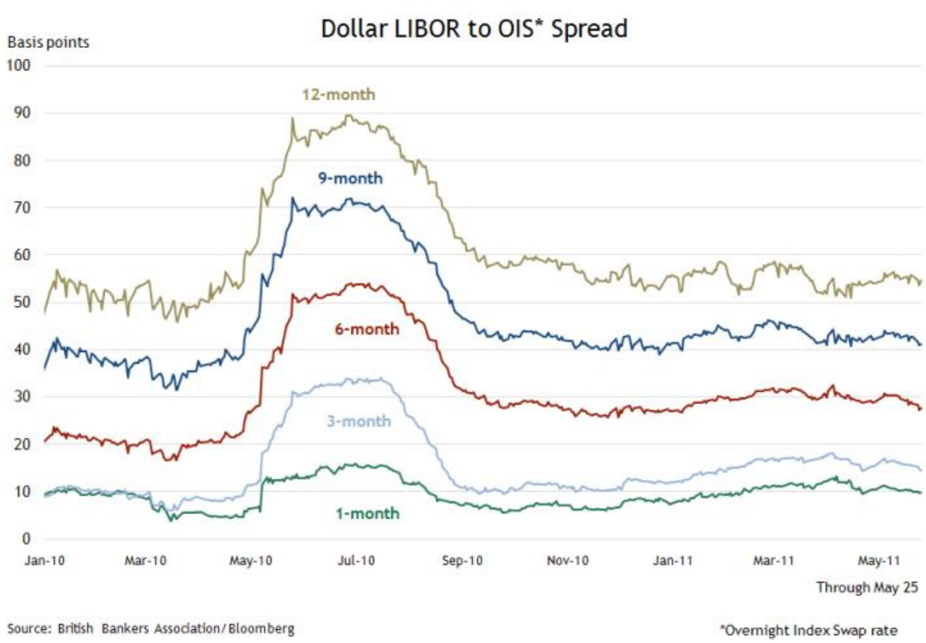
Summary

Since the April FOMC meeting, Treasury yields are lower across the curve.



- Since the April FOMC meeting, the 30-year Treasury bond yield is down 19 bps to 4.26%, the 10-year note's yield is lower by 27 bps to 3.12%, and the two-year note is down 9 bps at 0.56%.

LIBOR to OIS spreads have narrowed nearly a basis point since the April FOMC meeting, with the one- and three-month spreads at 9.8 bps and 14.5 bps, respectively.

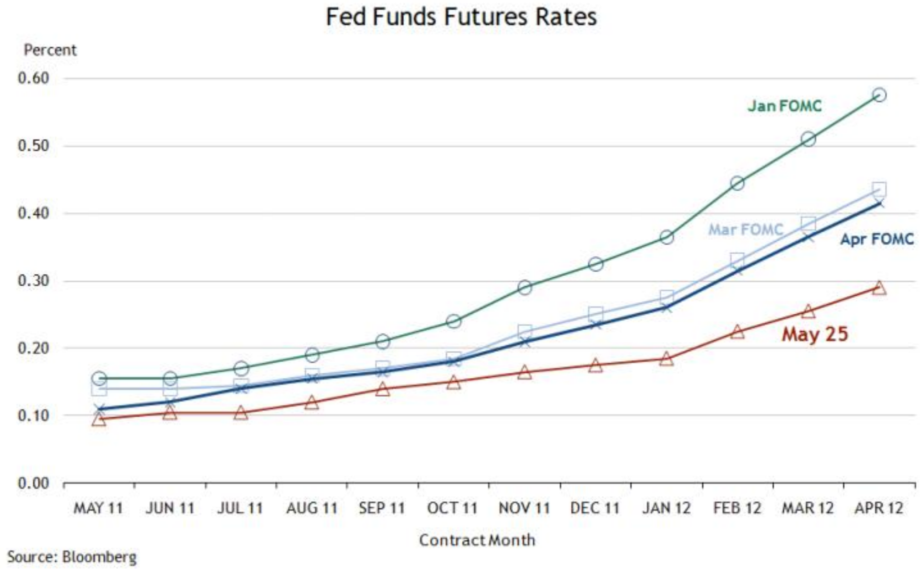


Broad Financial Market Indicators

Summary

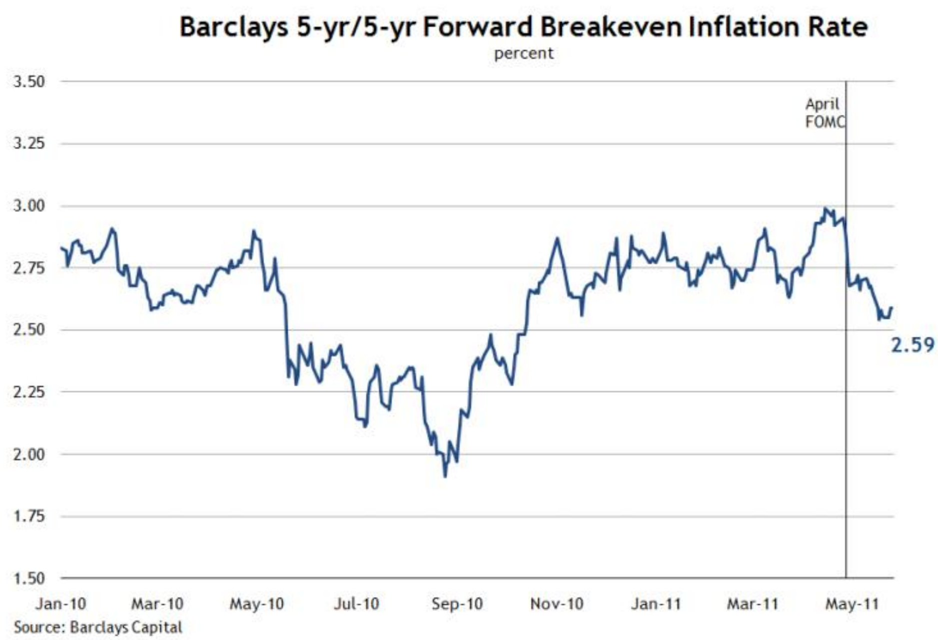
The curve of expected rates has moved lower since the April FOMC meeting.

The short end of the curve is lower, at least partially, as a result of the anticipated runoff of the SFP and the FDIC assessment change.



- As of May 25, 2011, the futures market for fed funds indicates an implied rate of about 29 bps for the April 2012 contract, about 13 bps lower since the April FOMC meeting and down 4 bps from a week ago.

Breakeven inflation rates have fallen sharply since the April FOMC meeting.

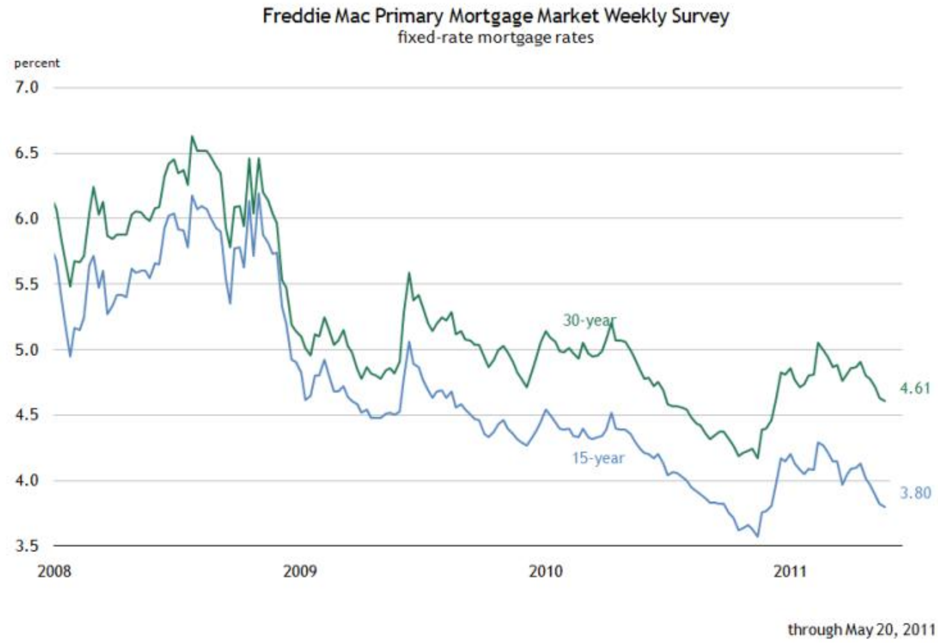


- Looking at one measure calculated by Barclays suggests investors see CPI inflation five to 10 years out as averaging about 2.59% as of May 25, 2011, which is 27 bps lower than what followed the April FOMC meeting.

Mortgage Rates

Summary

Rates on fixed-rate mortgages declined for the fifth consecutive week for the week ending May 20, 2011.



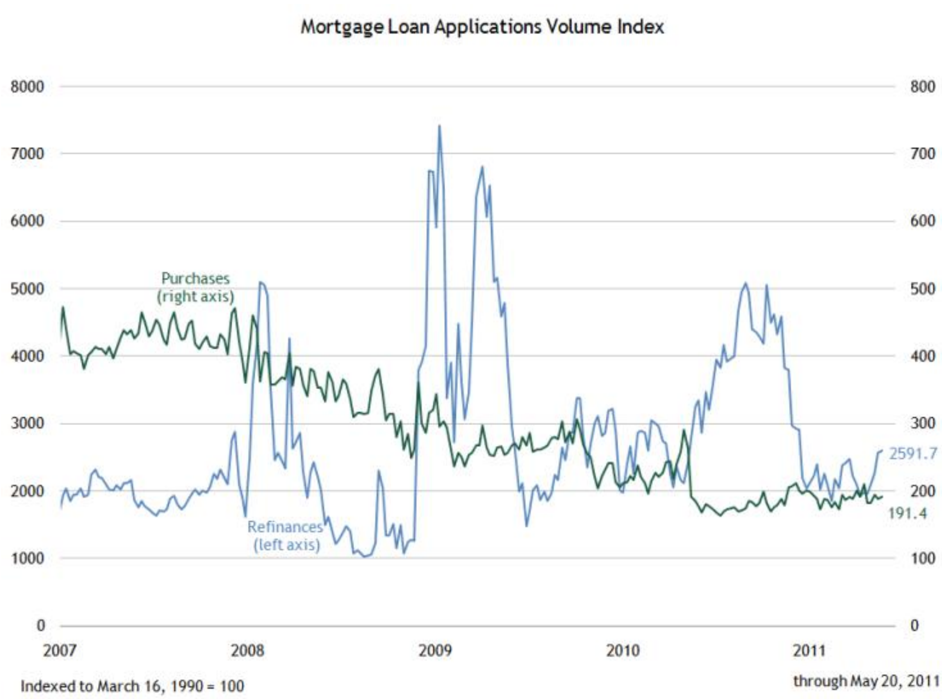
Source: Federal Home Loan Mortgage Corporation/Haver Analytics

- The 30-year fixed rate averaged 4.61%, down slightly from 4.63% a week ago. At this time last year the 30-year fixed rate averaged 4.84%.
- The 15-year fixed rate averaged 3.80%, down from 3.82% a week ago. At this time last year the 15-year fixed rate mortgage averaged 4.24%.

Mortgage loan application volume increased 1.1% for the week ending May 20, 2011.

The refinance index increased 0.9% from one week earlier to its highest level since mid-December 2010. The purchase index also increased 1.5% over the previous week.

The purchase index and refinance index are measures of loan application volume reported in the MBA's Weekly Application Survey. The survey has been conducted weekly since 1990 and covers more than 50 percent of all U.S. retail residential mortgage applications.



Source: Mortgage Bankers Association/Haver Analytics

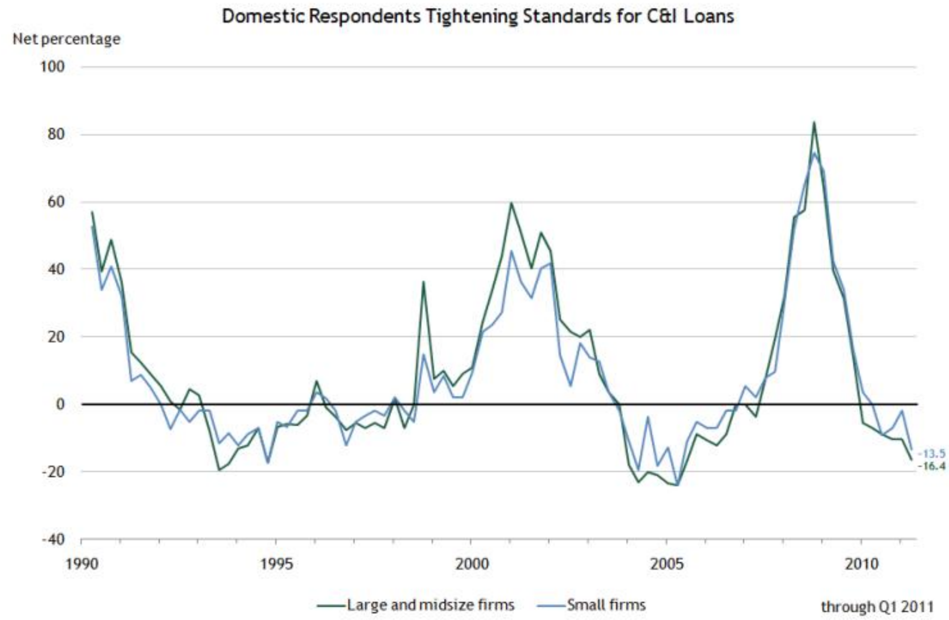
- The refinance share of mortgage activity increased to 66.8% from 66.7% the previous week.

Senior Loan Officer Opinion Survey

Summary

The April 2011 Senior Loan Officer Opinion Survey (covering activity in the first quarter of 2011) indicated domestic banks continued easing standards on commercial and industrial (C&I) loans.

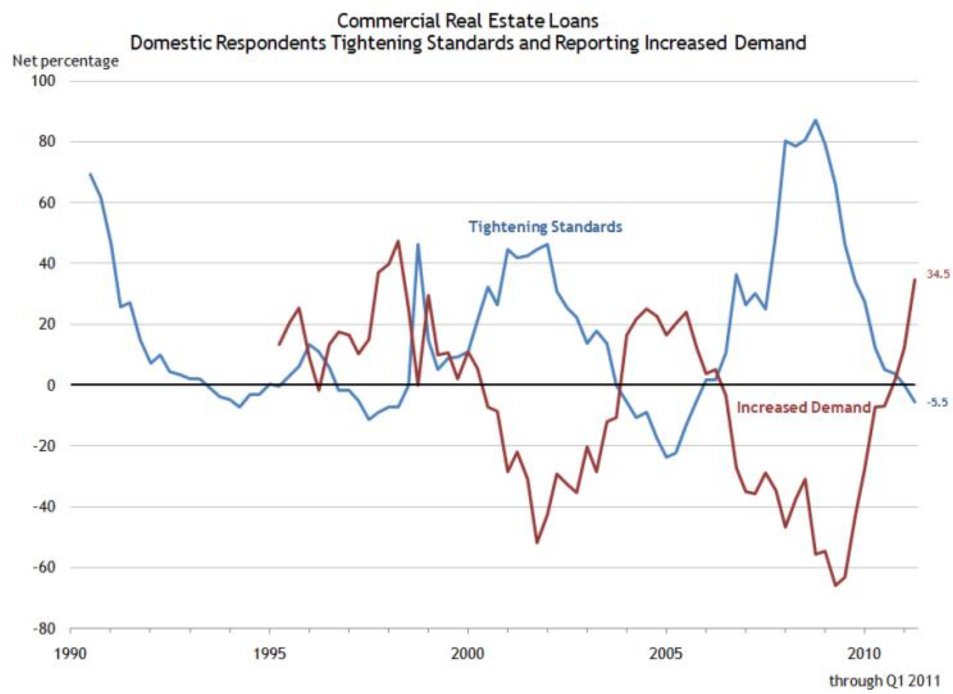
Banks cited increased competition from other banks and nonbank lenders, as well as a more favorable or less uncertain economic outlook as important factors behind the recent easing of terms and standards.



Source: Board of Governors

A few large domestic banks reported easing standards for CRE loans, although most domestic banks reported standards and terms for CRE loans were unchanged.

On net, about 35% of domestic banks reported increased demand for CRE loans. The banks reporting increased demand were all large domestic banks; other banks reported little change in demand. CRE loan demand recorded its strongest reading since the mid-1990s.



Source: Board of Governors