

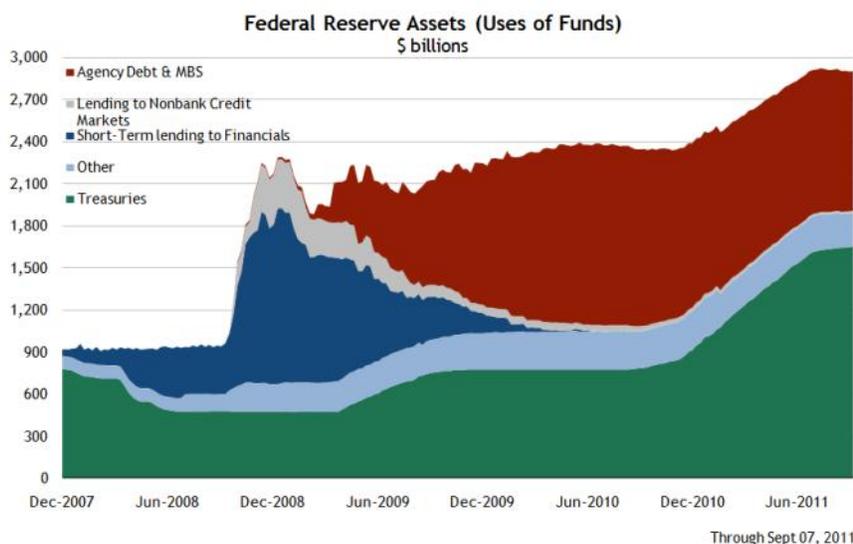
Financial Highlights

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Federal Reserve

Summary

The balance sheet increased \$4 billion for the week ended September 7, 2011.

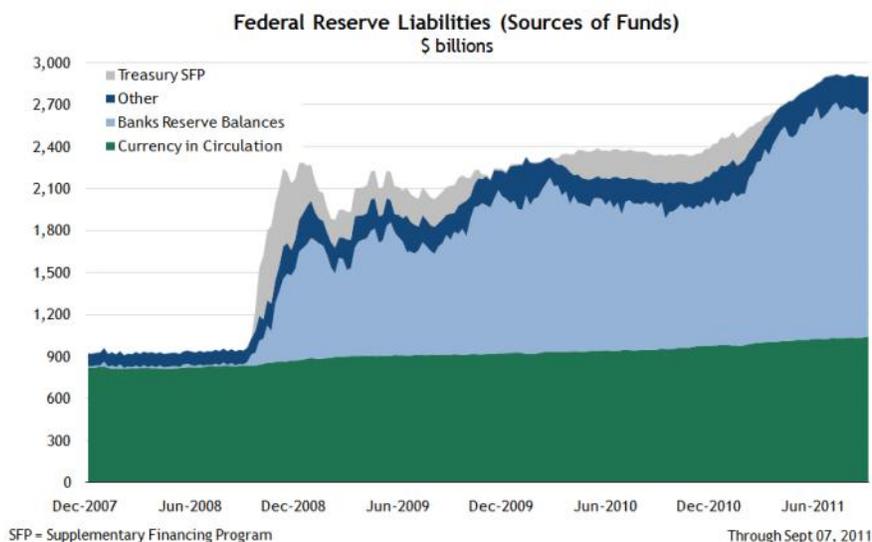


Source: Federal Reserve Board

- Treasuries increased by \$3.5 billion while agency debt and MBS were unchanged.
- According to the [New York Fed's tentative outright Treasury operation schedule](#), the desk plans to purchase approximately \$16 billion between mid-September and mid-October. This amount represents how much is needed to replace the expected principal payments from agency debt and agency MBS over this time period.

Bank reserve balances with the Federal Reserve increased \$18 billion, mostly offset by a decrease of \$19.6 billion in the Treasury's general account with the Federal Reserve.

As of September 7, 2011, bank reserve balances are \$1.6 trillion.



Source: Federal Reserve Board

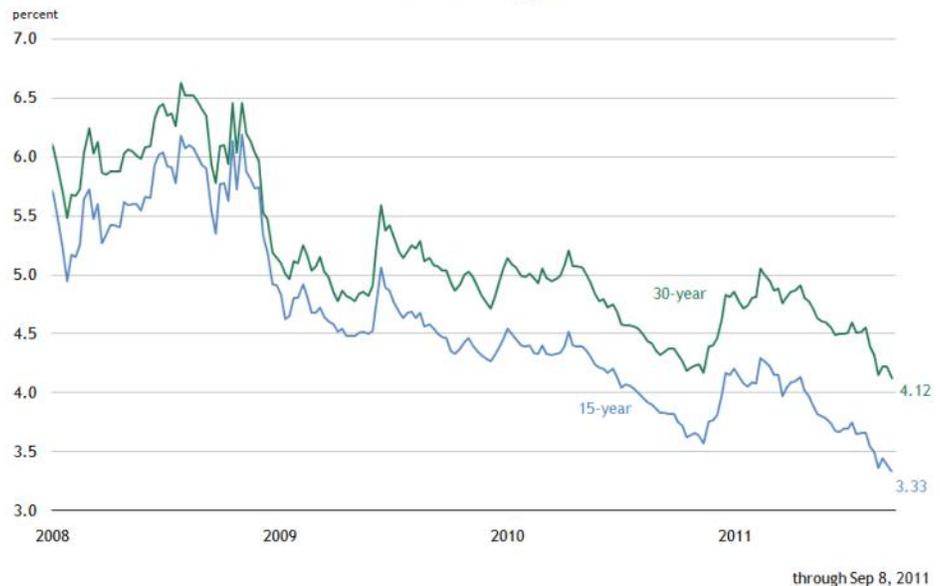
Assets: Lending to nonbanks—TALF, CPFF, AMLF, and MMIFF; Short-term lending to financials—discount window, TAF, currency swaps, PDCF, and repos; Misc.—Maiden Lanes I, II, and III, credit to AIG, and other Fed assets. **Liabilities:** Other—Reverse repos, Treasury cash holdings, and deposits with Federal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

Mortgage Markets

Summary

Rates on both 30-year and 15-year fixed-rate mortgages declined to new record lows for the survey week ending September 8, 2011.

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



Source: Federal Home Loan Mortgage Corporation/Haver Analytics

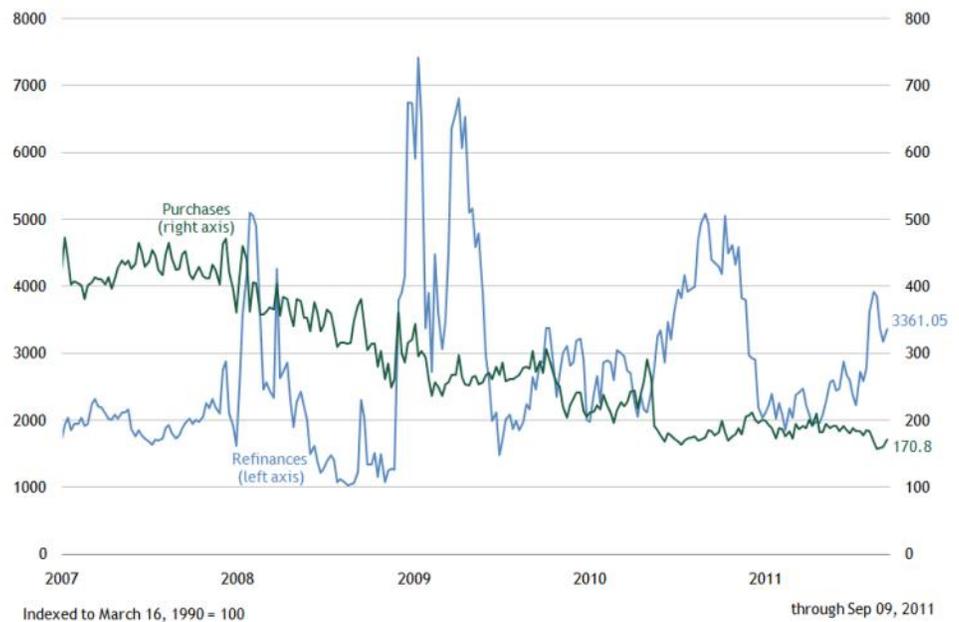
- The 30-year fixed rate averaged 4.12 percent, down from 4.22 percent a week ago. At this time last year, the 30-year fixed rate averaged 4.35 percent.
- The 15-year fixed rate averaged 3.33 percent, down from 3.39 percent a week ago. At this time last year the 15-year fixed rate mortgage averaged 3.83 percent.

Total mortgage loan application volume increased 6.3 percent from the previous week according to the Mortgage Bankers Association survey for the week ending September 9, 2011; purchase applications increased 7 percent and refinance applications were up 6 percent.

Both the refinance index and the purchase index remain below the levels of one year ago.

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.

Mortgage Loan Applications Volume Index



Source: Mortgage Bankers Association/Haver Analytics

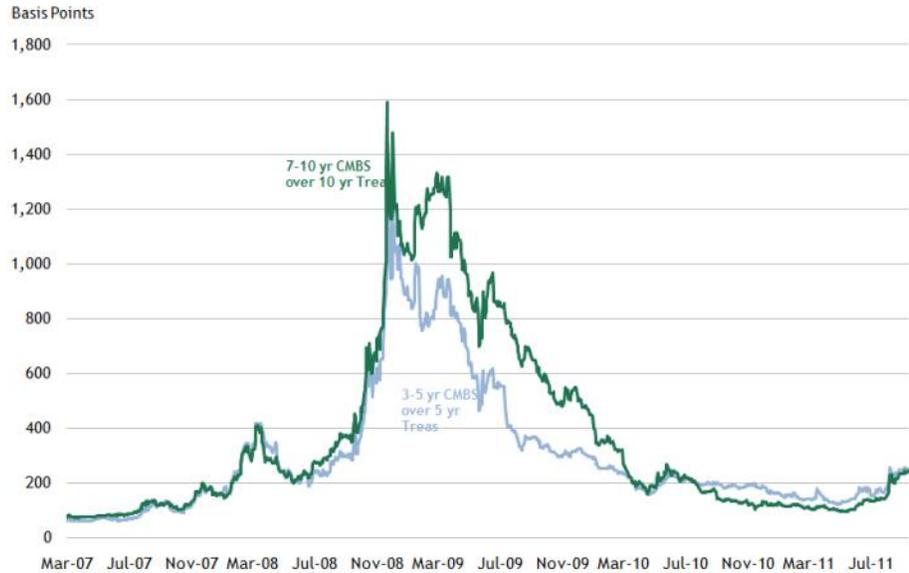
- The refinance share of mortgage activity increased to 77.3 percent from 77.1 percent the previous week.

Securitization Markets

Summary

Top-rated CMBS yield spreads have risen over the past two months.

AAA-rated CMBS Yield Spreads to Treasury



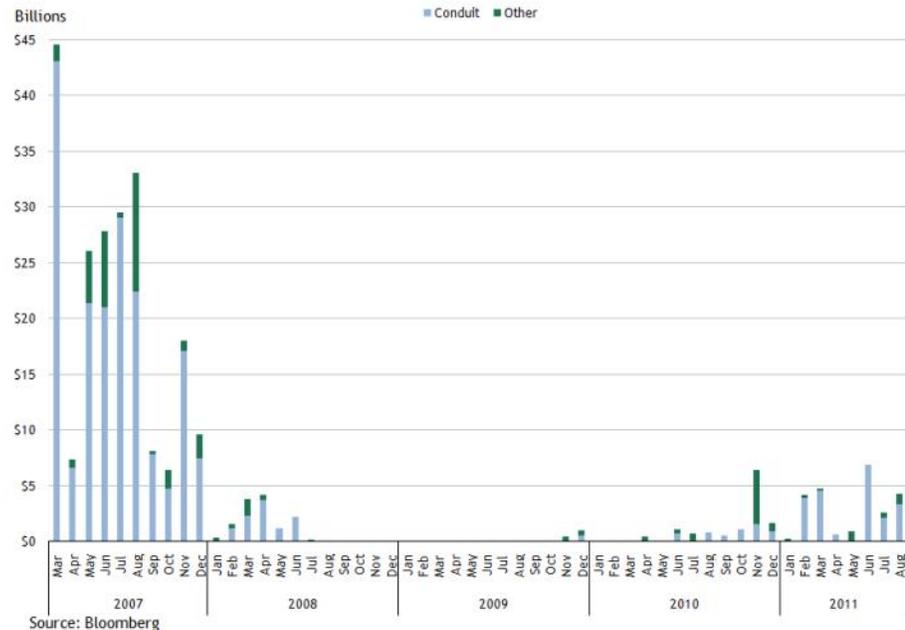
Sources: Merrill Lynch/Bloomberg

Through Sep 14

- Three-to-five year CMBS over five-year Treasuries have risen 81 basis points (bps) since July 14. Likewise, seven-to-10 year CMBS over 10-year Treasuries are 105 bps higher.

CMBS issuance in the form of conduits has increased in recent months, a sign of improvement in the CMBS market.

Commercial MBS Issuance by Type



Source: Bloomberg

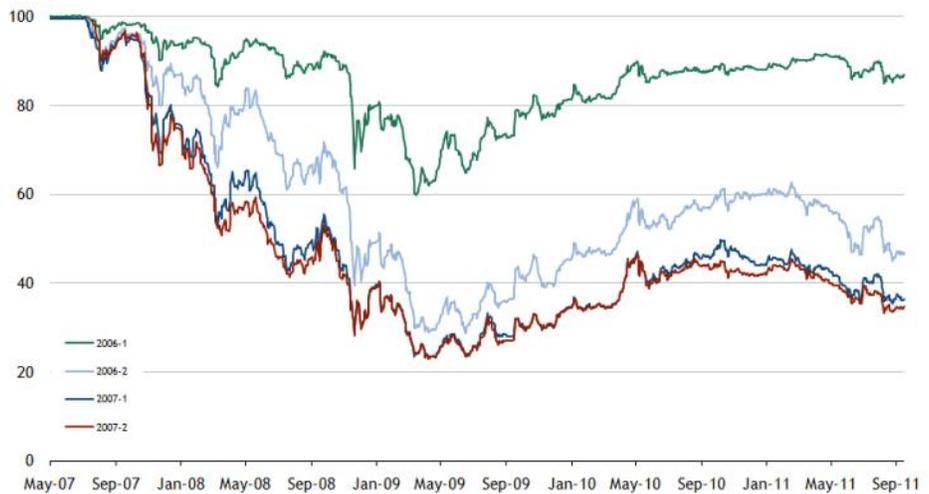
Securitization Markets

Summary

All vintages of the AAA ABX.HE have stumbled over the past two months. Year to date, the 2006-1 vintage is basically unchanged while all other vintages are lower.

Decreases in the index indicate an increase 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

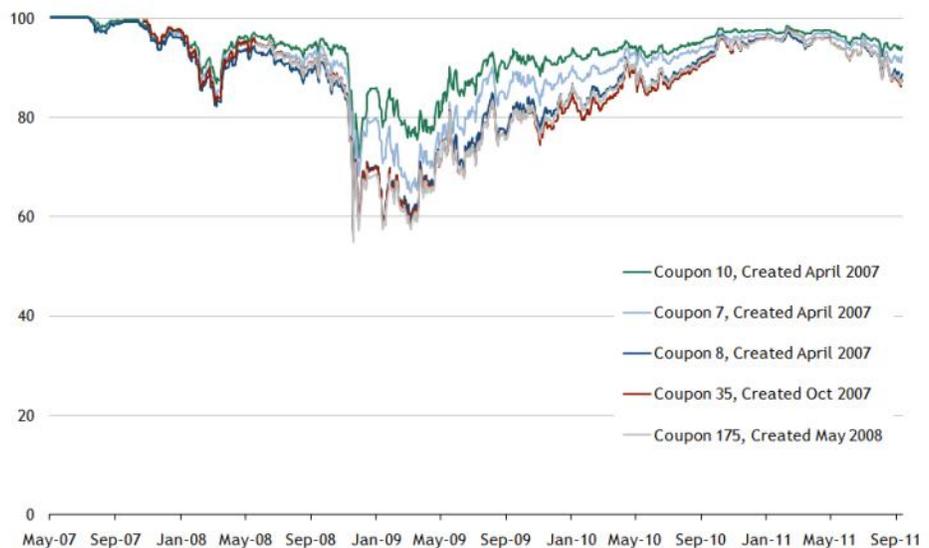
Through Sep 14

CMBX indices have trended down over the past two months.

The index value of commercial MBS credit default swaps are now close to late July 2010 levels.

Increases in the index indicate a decrease in the cost to insure against default of commercial MBS.

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



Source: Markit Group Limited/Haver Analytics

Through Sep 14

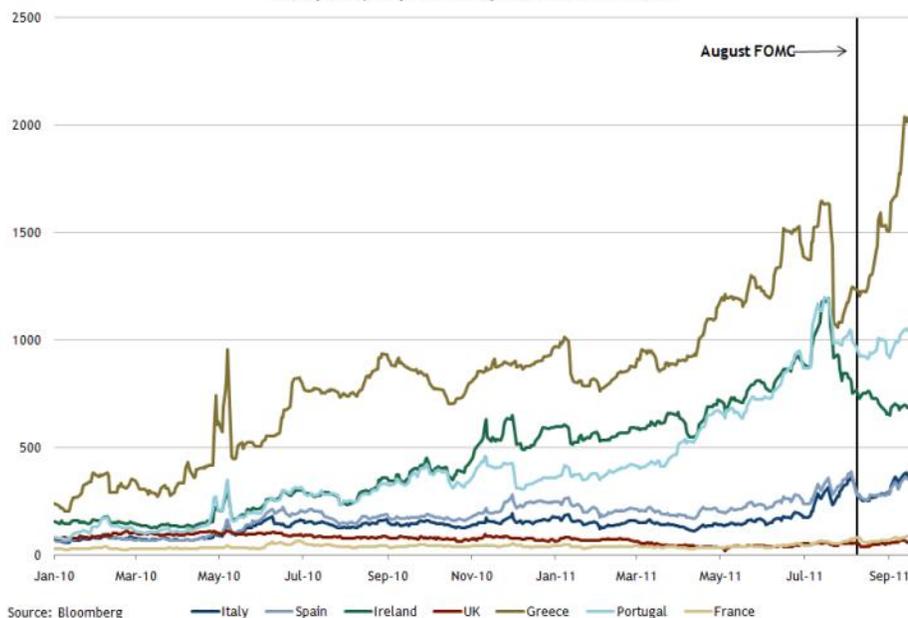
European Financial Indicators

Summary

Fears over a potential Greek default sent bond spreads higher. The sovereign debt markets for Spain, Italy, and Portugal have also experienced financial dislocations.

Several eurozone banks, particularly French banks, experienced sharp widening in their CDS spreads (along with stock price declines) as worries mounted over whether Greece would default on sovereign debt.

European Bond Spreads
Basis points, 10-year bond spread to German bonds



- Since the August FOMC meeting, the 10-year yield spread between Greek and German bonds has widened dramatically, up over 800 bps to 20 percent. The yield spreads for Portugal and Italy have both increased over 100 bps, and Spanish spreads are up 83 bps.

Eurozone Bank CDS Spreads
5-year, basis points

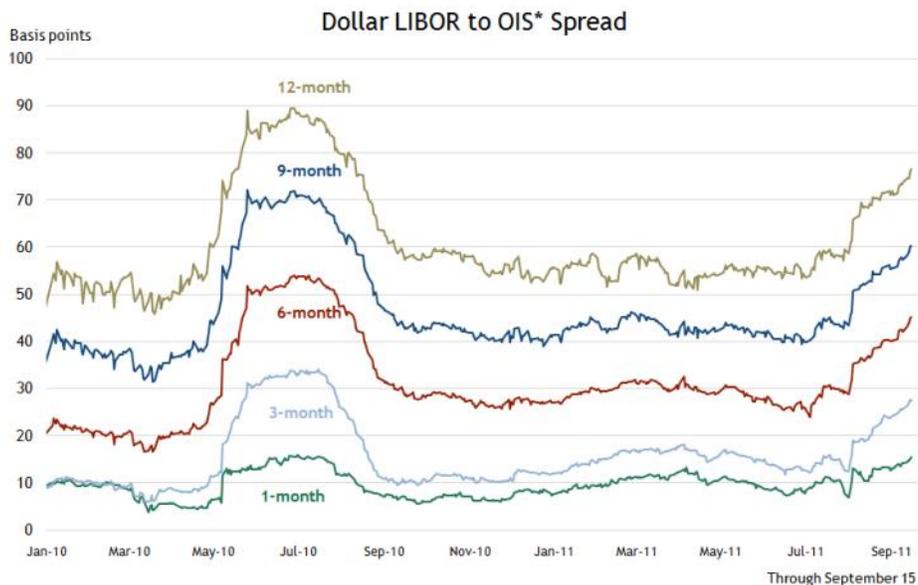


- Since August 31, CDS spreads of several of France's largest banks have widened noticeably, with Societe Generale up 130 bps, BNP Paribas up 80 bps, and Credit Agricole up 90 bps through September 14. The German bank, Deutsche Bank, has also seen its CDS spread widen 50 bps during the same period.

Broad Financial Market Indicators

Summary

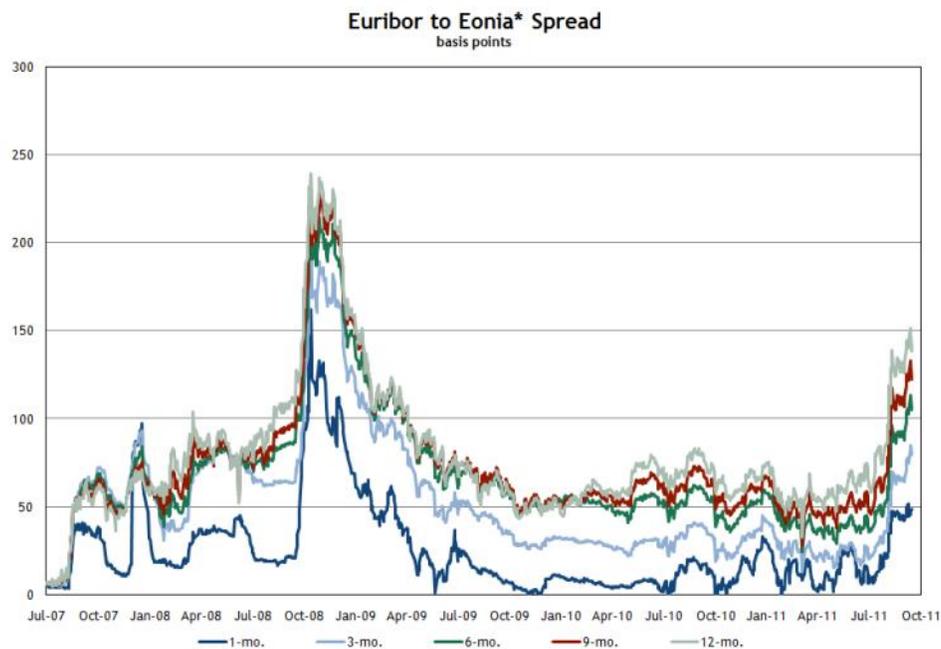
LIBOR to OIS spreads for all tenors have widened since the August FOMC meeting, but particularly for longer tenors. Since August 9, spreads are nearly 8-9 basis points (bps) higher for the three- to 12-month tenors, but only 3 bps higher for the one-month tenor.



Source: British Bankers Association/Bloomberg

*Overnight Index Swap rate

Similar to the LIBOR to OIS spread but for European banks, the Euribor to Eonia spread has widened dramatically recently. (The Euribor rate functions similarly to the LIBOR rate but is denominated in euros instead of dollars. Eonia is the Euro Overnight Index Average.)



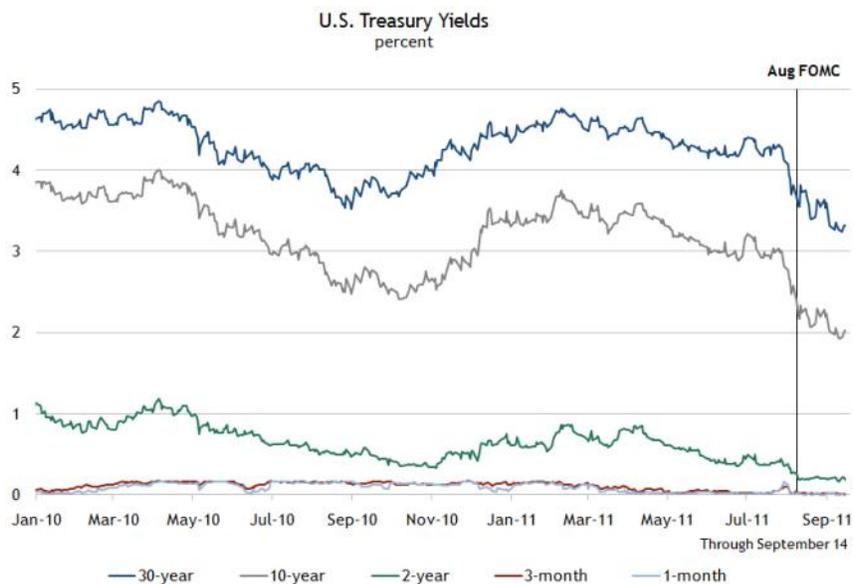
Source: Bloomberg

*Euro OverNight Index Average (EONIA) is the European-equivalent of the overnight interest rate

Broad Financial Market Indicators

Summary

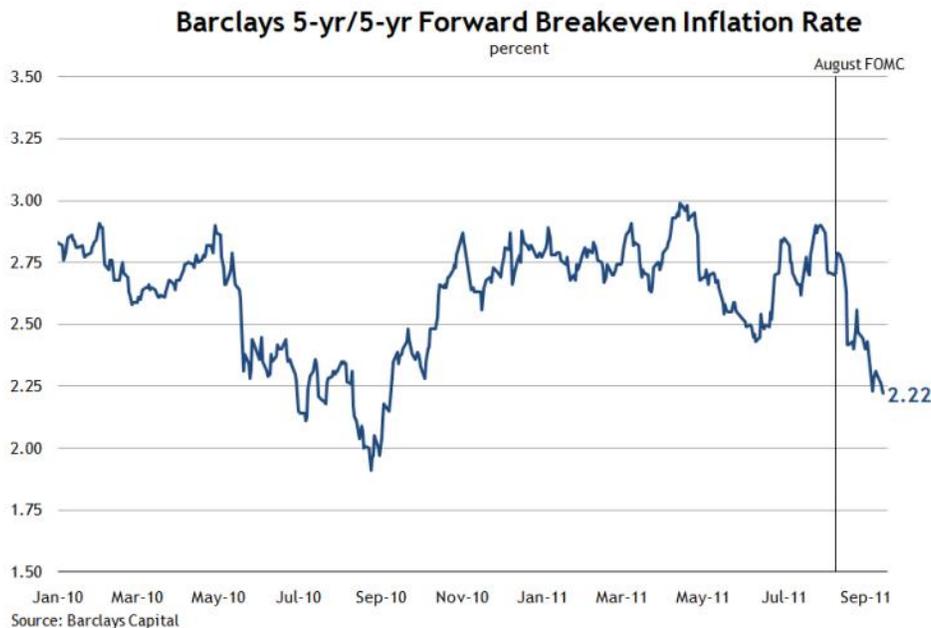
Longer-dated Treasury yields have inched slightly higher in the past week, but at levels much lower than a few weeks ago.



Source: Federal Reserve Board/Haver Analytics

- Since August 9, the 30-year Treasury bond yield is down 24 bps to 3.32 percent, the 10-year yield is 17 bps lower to 2.03 percent, but the two-year yield is flat at 0.19 percent. The three- and one-month T-bill rates have both inched down to about 1 bp.

Breakeven inflation rates have moved sharply lower since the August FOMC meeting.



- Looking at one measure calculated by Barclays suggests investors see CPI inflation five to 10 years out as averaging about 2.22 percent as of September 14, 2011, which is 4 bps lower over the week and 49 bps lower since the August FOMC meeting. Current breakeven rates are approaching the lowest point seen since last fall.