

Financial Highlights

Federal Reserve

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European Debt

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| Bond Spreads | 2 |
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| CDS Spreads | 2 |
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Consumer Credit

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|-------------|---|
| ABS Spreads | 3 |
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Broad Financial Market Indicators

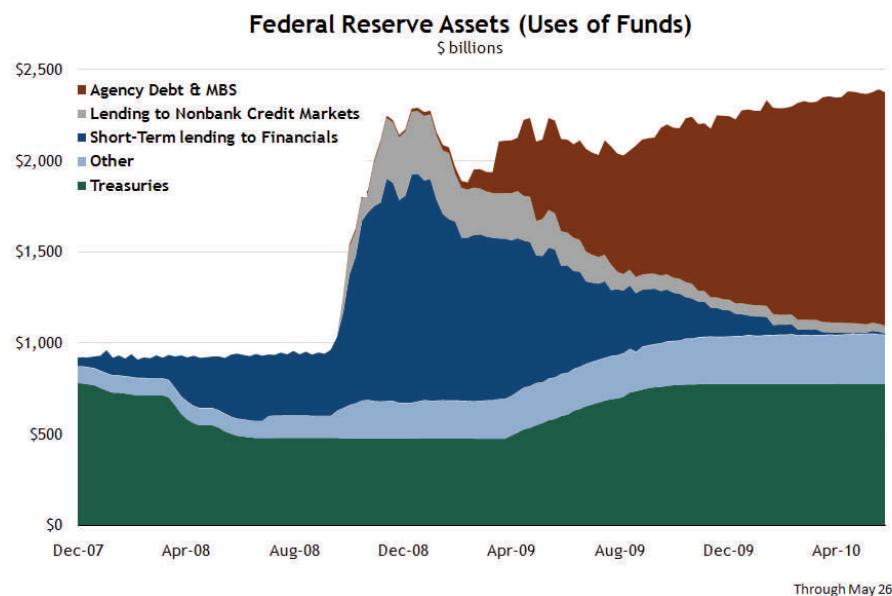
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Federal Reserve

Summary

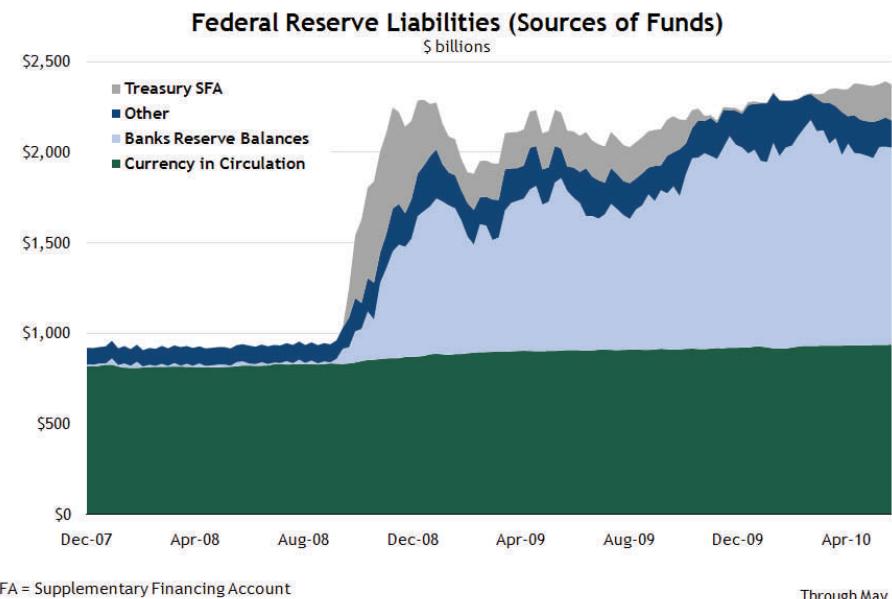
The balance sheet declined by \$16.5 billion, to \$2.4 trillion, for the week ended May 26.



Source: Federal Reserve Board

- Currency swaps on the balance sheet declined by \$7.9 billion to \$1.2 billion. The Bank of Japan has exchanged a small amount, but most of the activity has come from the European Central Bank.
- The other driver in the decline in the balance sheet came from mortgage backed securities, which fell by \$6.6 billion to \$1.1 trillion.

Bank reserve balances declined by \$7 billion, but the main mover was the U.S. Treasury's general account with the Federal Reserve (part of "Other"), which declined by \$13 billion, undoing the gain from the previous week.



Source: Federal Reserve Board

Assets: Lending to nonbanks—TALF, CPFF, AMLF, and MMLF; 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

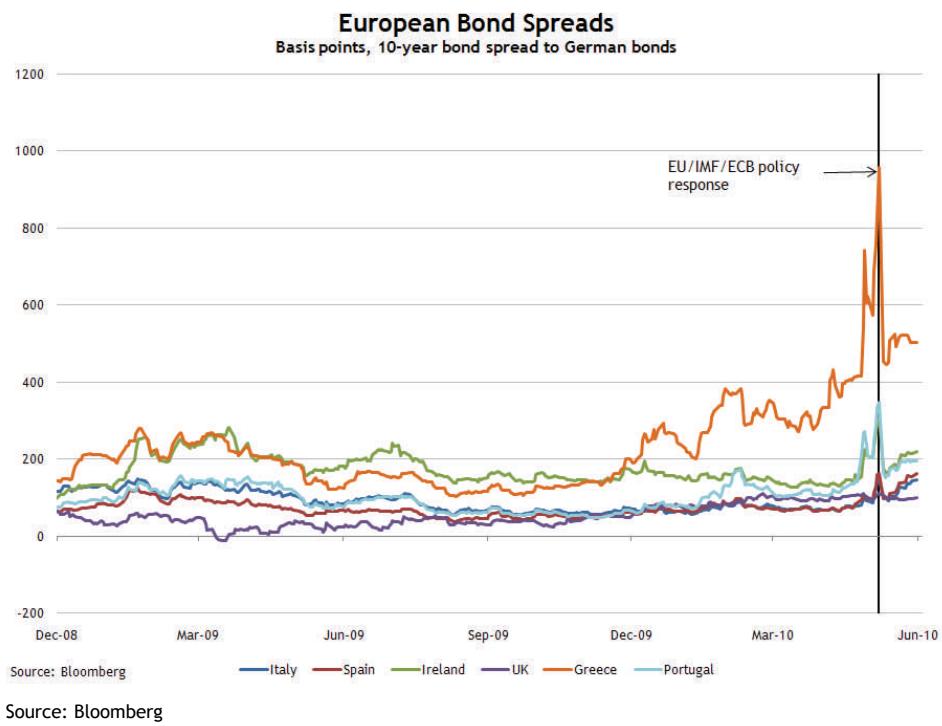
Summary

Despite the latest announcement of planned austerity measures by Spain, Portugal, and Italy, uncertainty around the adjustment challenges in peripheral Europe continues to weigh on the region's bond prices.

Downgrading of Spanish sovereign debt by Fitch and ongoing concerns about the Spanish banking sector further added to investor worries. Compared with two weeks ago, peripheral Europe's bond spreads to bunds have widened by 30 basis points (bps) on average.

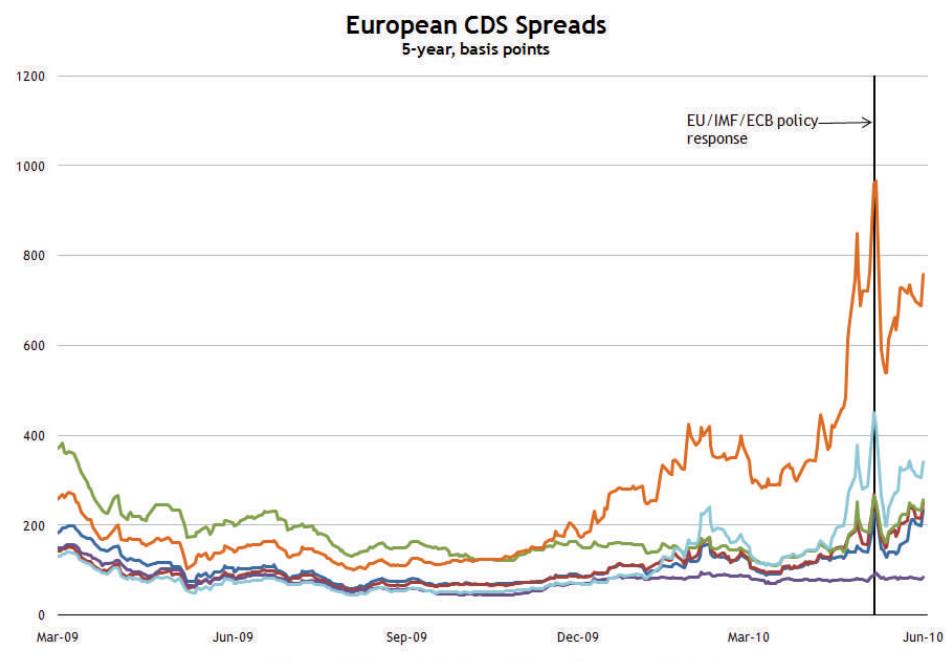
Similarly, CDS spreads have risen after the initial response to the stabilization package.

It should be noted that the German government, through its financial services regulator BaFin, unilaterally and temporarily banned naked short selling of sovereign debt securities, naked credit default swaps on European sovereign debt in which the buyer has no hedging demand, and naked short sales in 10 prominent German financials.



Source: Bloomberg

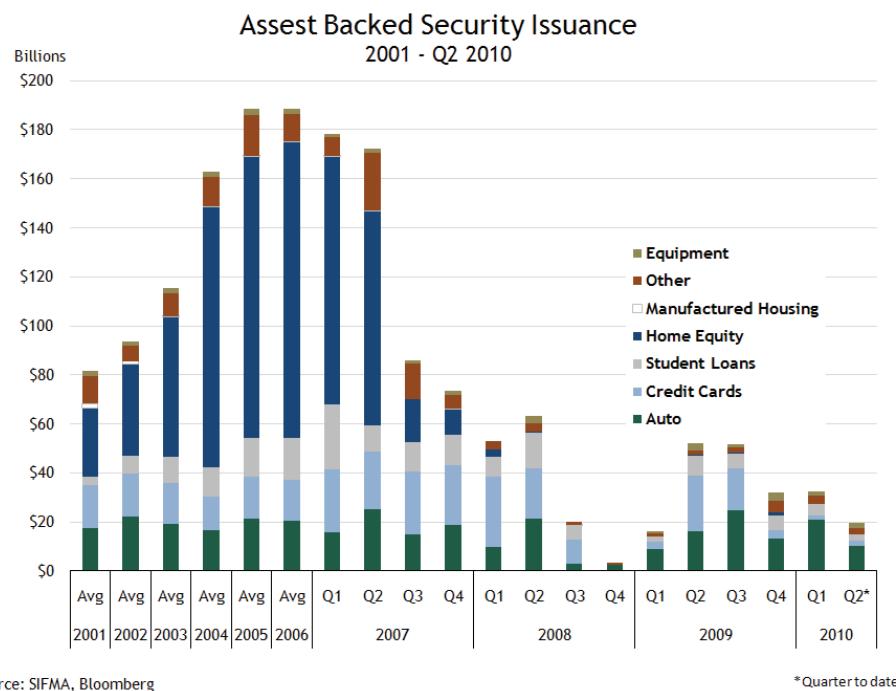
- After declining early last week, sovereign debt spreads have begun widening for peripheral euro area countries. As of June 1, the 10-year bond spread stands at 503 basis points (bps) for Greece, 219 bps for Ireland, 195 bps for Portugal, and 162 bps for Spain.



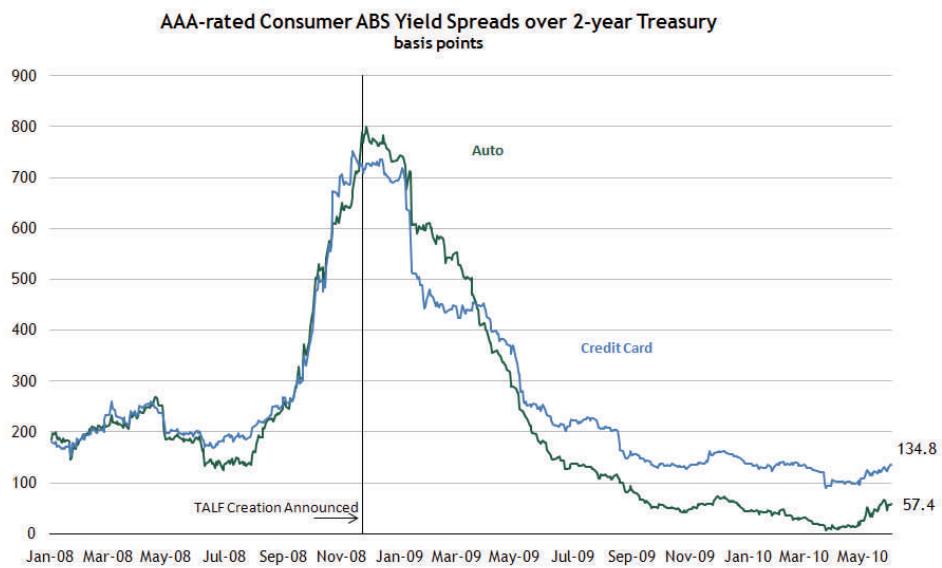
Consumer Credit

Summary

Issuance of asset backed securities so far for the second quarter of 2010 (data are through June 2) is on track to match first-quarter levels.



Consumer ABS yield spreads have risen during May.



Source: Bloomberg and Merrill Lynch

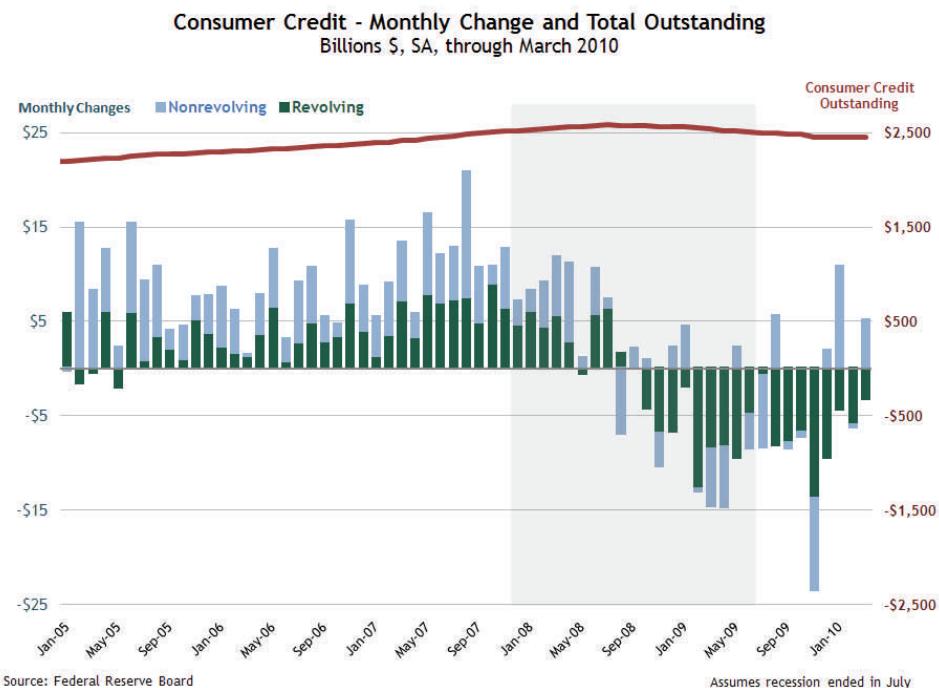
- Between April 30 and June 1, ABS backed by autos' spread increased by 32 bps and ABS backed by credit cards increased by 29 bps. The widening spread was mostly the result of a decline in the two-year Treasury, which fell 19 bps.

Consumer Credit

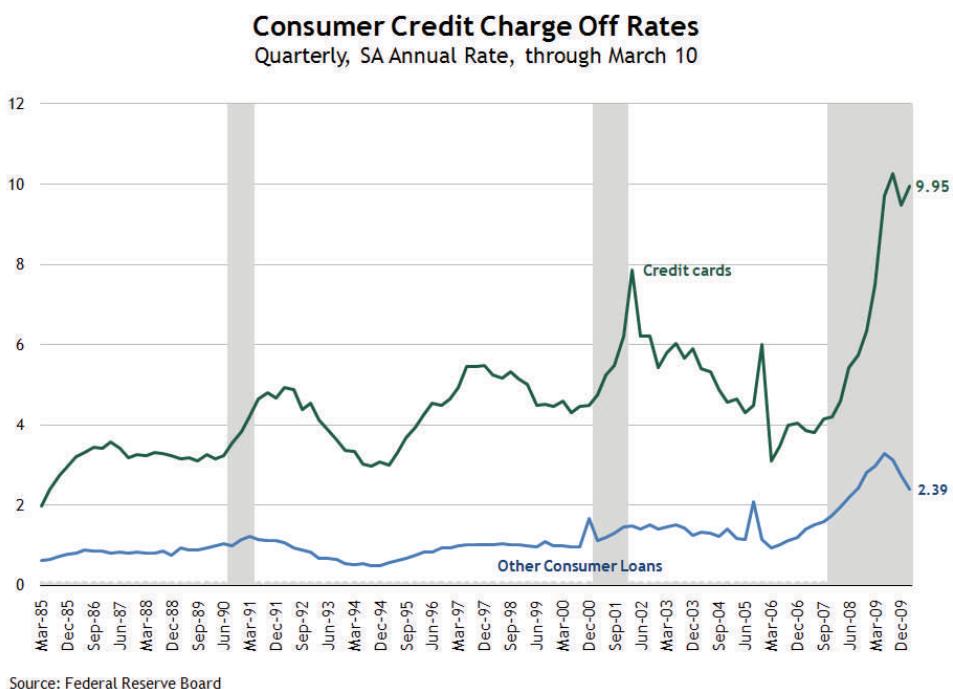
Summary

Consumer credit increased by \$2 billion in March.

Nonrevolving credit increased by \$5.2 billion while revolving credit fell by \$3.2 billion, the 18th consecutive month of declines.



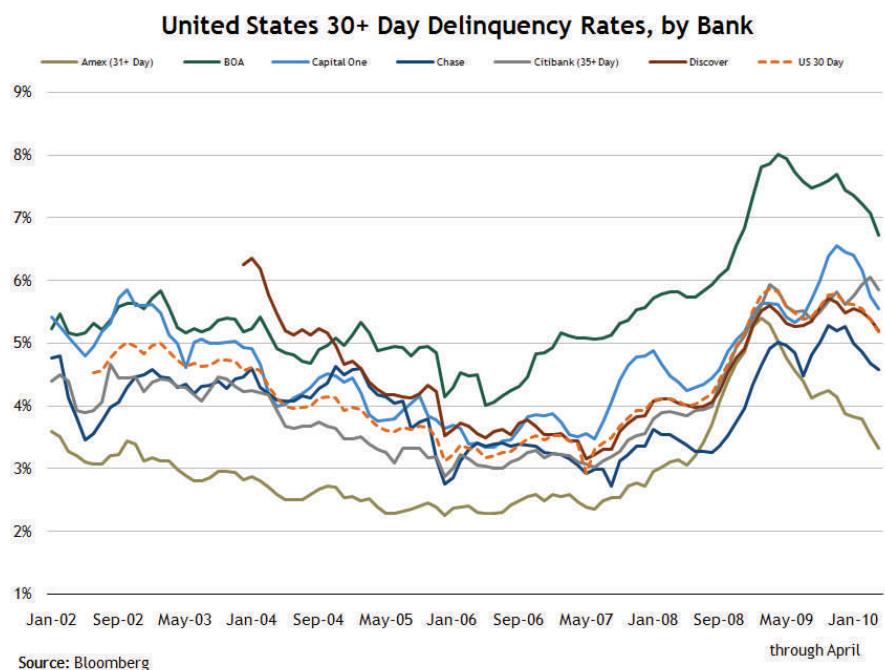
Charge-off rates for credit cards rose in the first quarter of 2010, while the charge-off rate on other consumer loans declined.



Consumer Credit

Summary

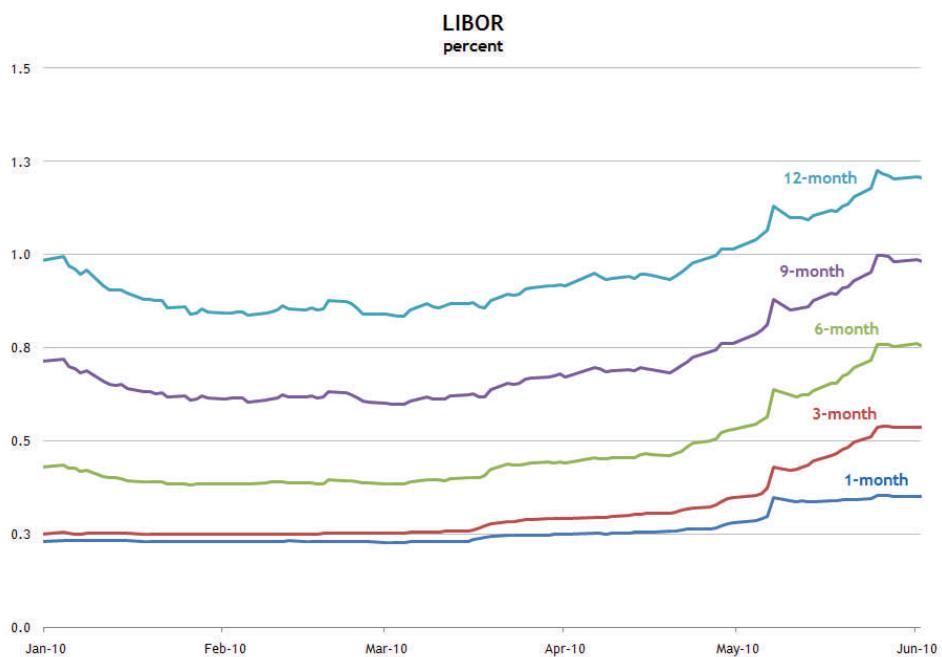
Thirty-day delinquency rates have been falling recently, a good indicator that a decline in charge-off rates will follow.



Broad Financial Market Indicators

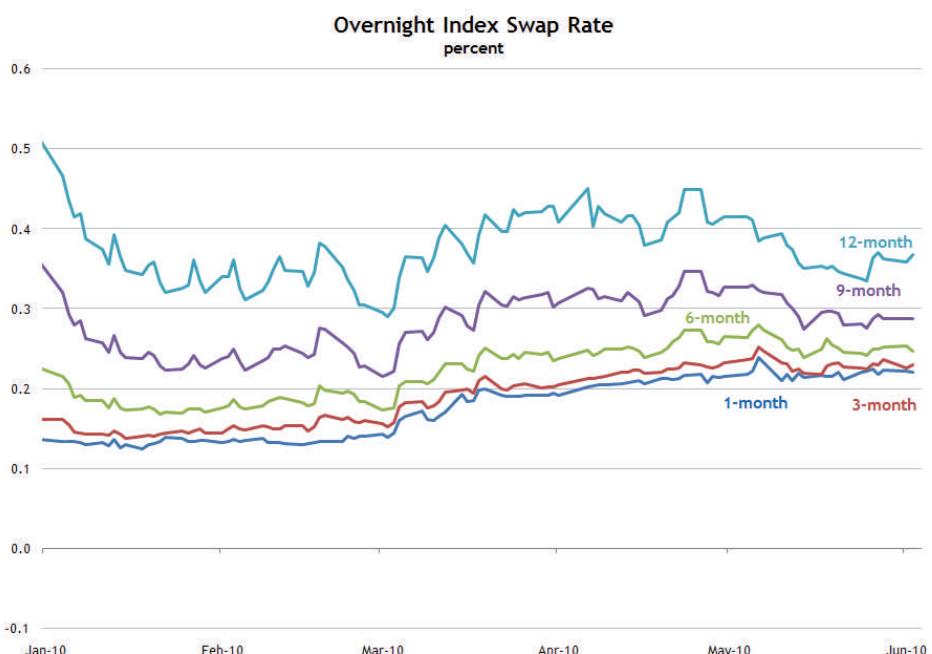
Summary

Decomposing the LIBOR to OIS spread into its respective components shows a rise in LIBOR fixings for all tenors longer than one month. On average, LIBOR is 8 bps to 12 bps higher for each tenor since its recent peak on May 7.



Source: Bloomberg/British Bankers' Association

Overnight index swap rates, while volatile, have been relatively stable.

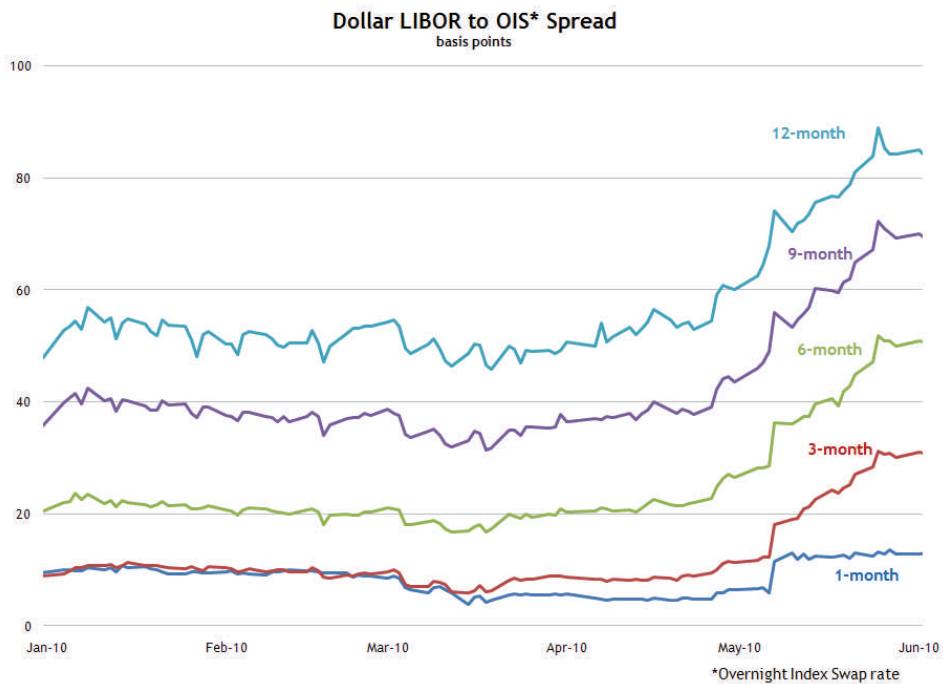


Source: Bloomberg/British Bankers' Association

Broad Financial Market Indicators

Summary

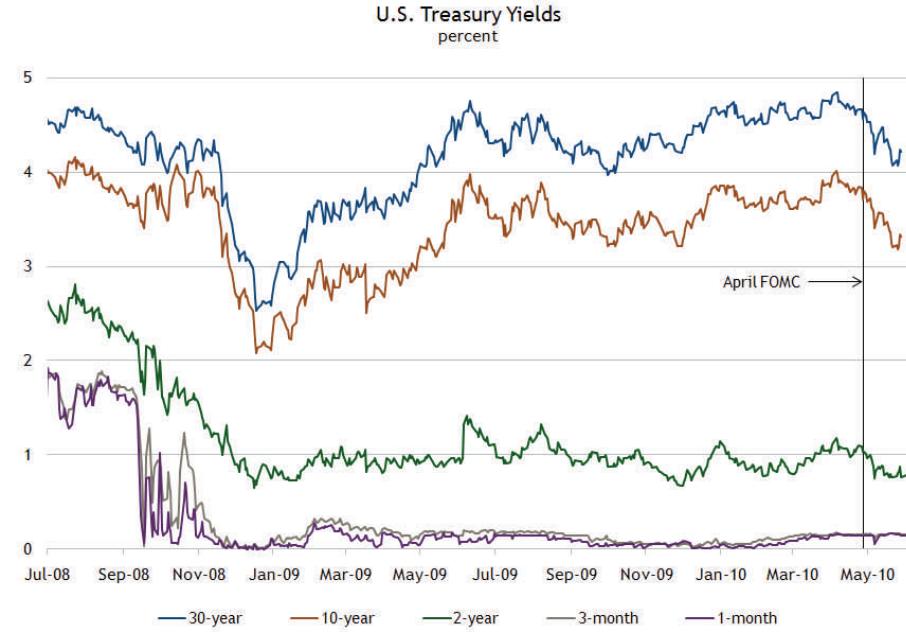
Outside of the one-month tenor, LIBOR to OIS spreads have risen 10 bps to 14 bps since May 7 as European financial turmoil continues to pressure dollar funding markets.



Source: Bloomberg/British Bankers' Association

- Between May 7 and June 2, dollar LIBOR to OIS spreads widened in all tenors except for one month, which is up only 1.5 bps. Spreads rose from 10 bps to 14 bps for three-, six-, nine-, and 12-month spreads.

Longer-dated Treasury yields continue to trend downward amid a broader shunning of risky assets.



Source: Federal Reserve Board

- Treasury yields continue to experience declines from safe-haven flows coming in light of uncertainty regarding European financial troubles.
- Since the April FOMC, longer-dated Treasury yields have moved lower across the two-to-30 year curve: Through June 1, the 30-year bond is down 44 bps to 4.19%, the 10-year bond is 51 bps lower at 3.29%, and the two-year note declined 25 bps to 0.78%.
- The 3- and 1-month T-bill rates are essentially unchanged at 0.16% and 0.14%, respectively.