

## Financial Highlights

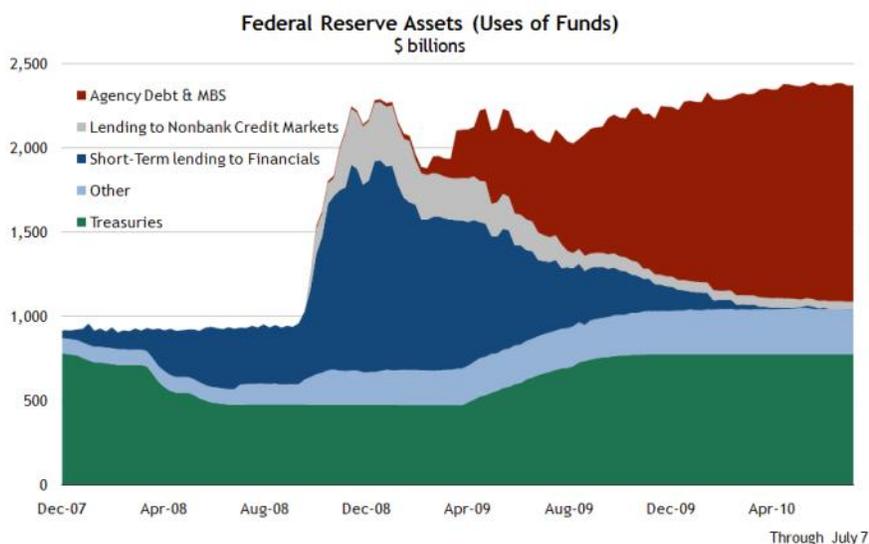
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# Federal Reserve

## Summary

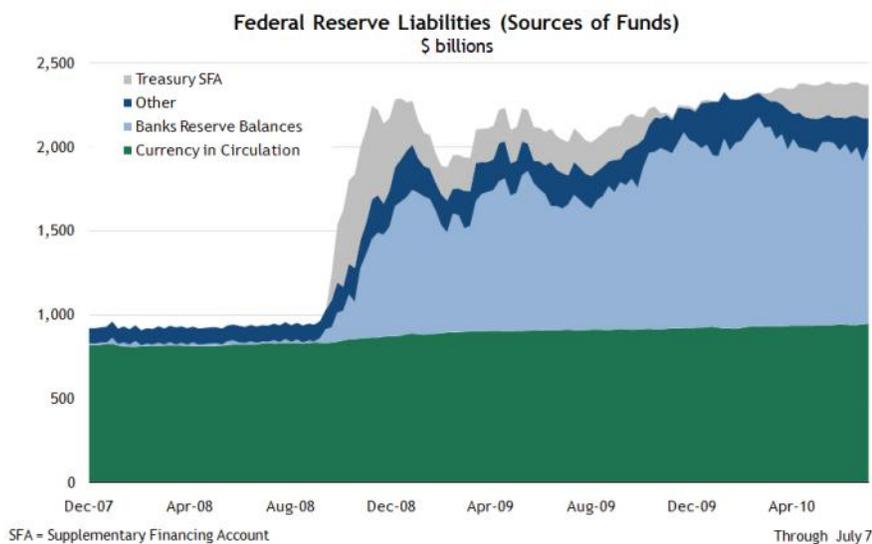
The balance sheet remained essentially unchanged, increasing \$82 billion for the week ending July 7.



Source: Federal Reserve Board

Bank reserve balances increased \$87 billion while U.S. Treasury deposits with Federal Reserve banks decreased by \$71 billion and other nondepository deposits with the Federal Reserve decreased by \$17 billion, both part of “other.”

Term deposits, a potential reserve-draining tool, increased to \$2 billion as test auctions continue.



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.

# European Debt

## Summary

Most peripheral European bond spreads (over German bonds) have narrowed or stabilized since the June FOMC meeting, though they remain elevated.

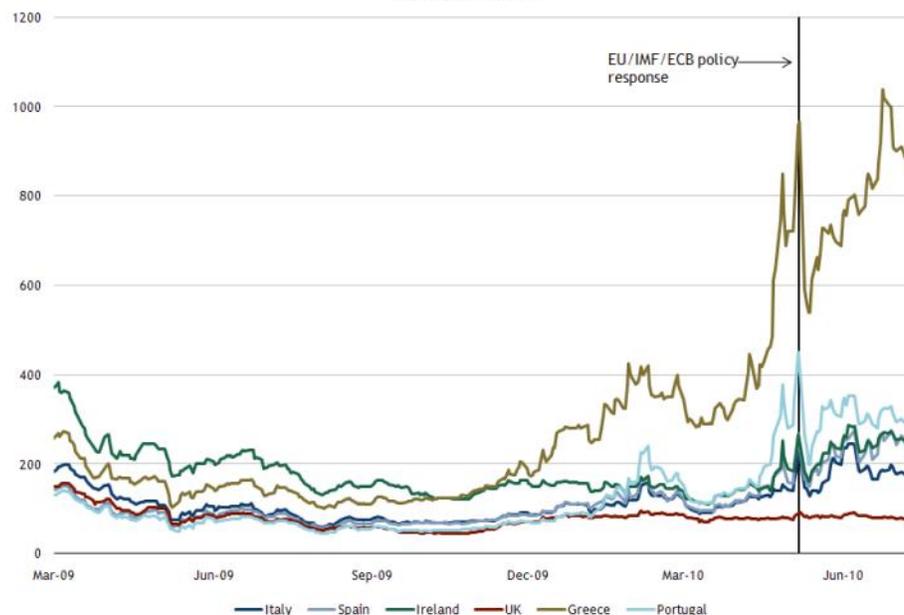
**European Bond Spreads**  
Basis points, 10-year bond spread to German bonds



- After rising steadily through May and most of June, the 10-year Greece-to-German bond spread has narrowed 33 basis points (bps) (from 8.01% to 7.68%), through July 13. Most other European peripherals' spreads have narrowed, too, with Portugal's down 26 bps. However, Spain (up 5 bps) and Italy (1 bp higher) are the exceptions.

Similarly, CDS spreads have narrowed from their recent highs, though they remain very high.

**European CDS Spreads**  
5-year, basis points



Source: Bloomberg

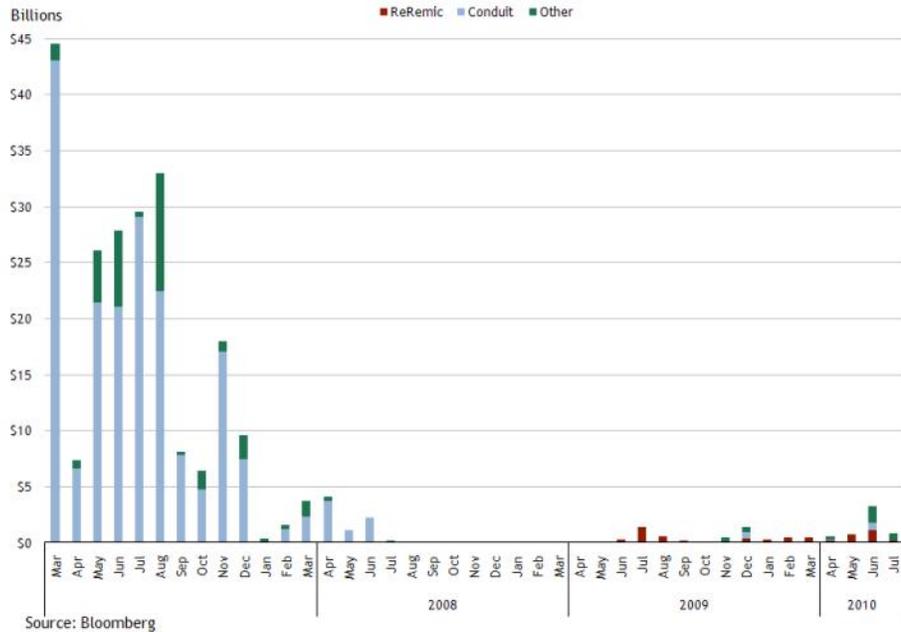
# Commercial Mortgage Backed Securities

## Summary

Issuance of CMBS picked up in June.

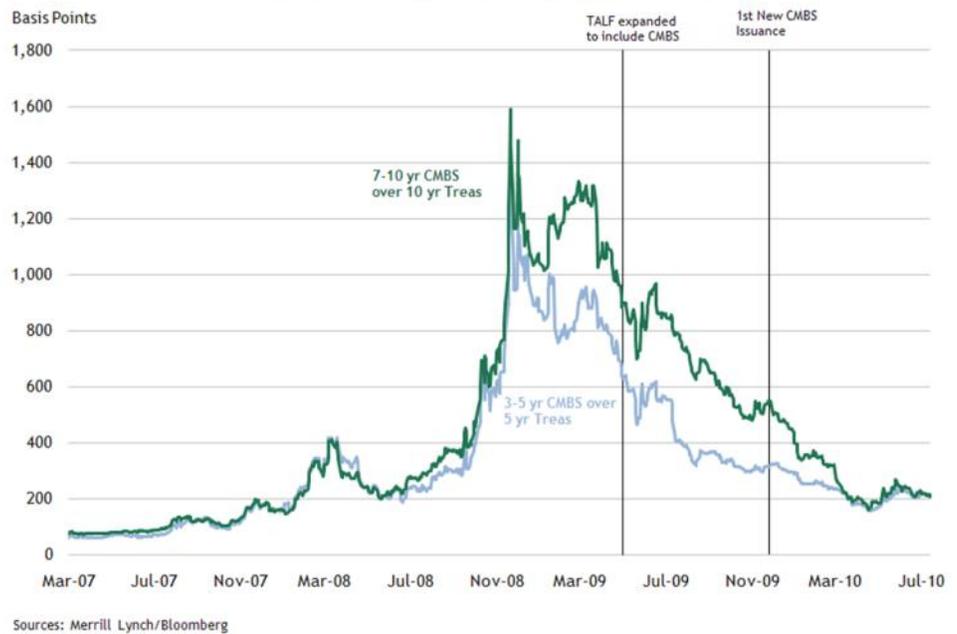
Re-REMIC deals remain popular, with many securities still on a watchlist for a ratings downgrade.

### Commercial MBS Issuance by Type



CMBS yield spreads to Treasuries have been hovering around 210 basis points since March.

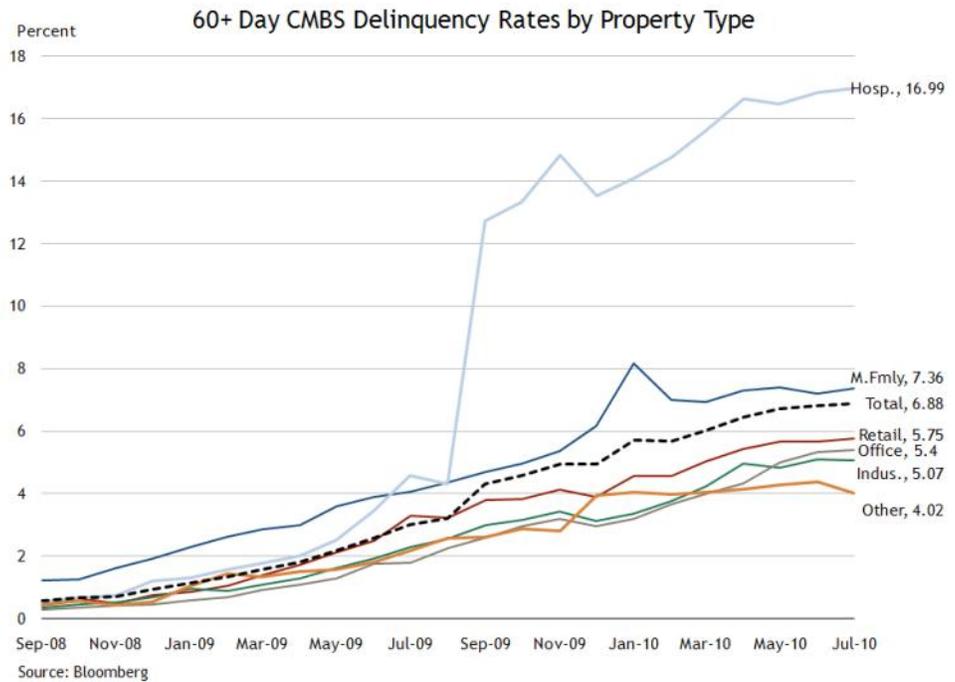
### AAA-rated CMBS Yield Spreads to Treasury



# Commercial Mortgage Backed Securities

## Summary

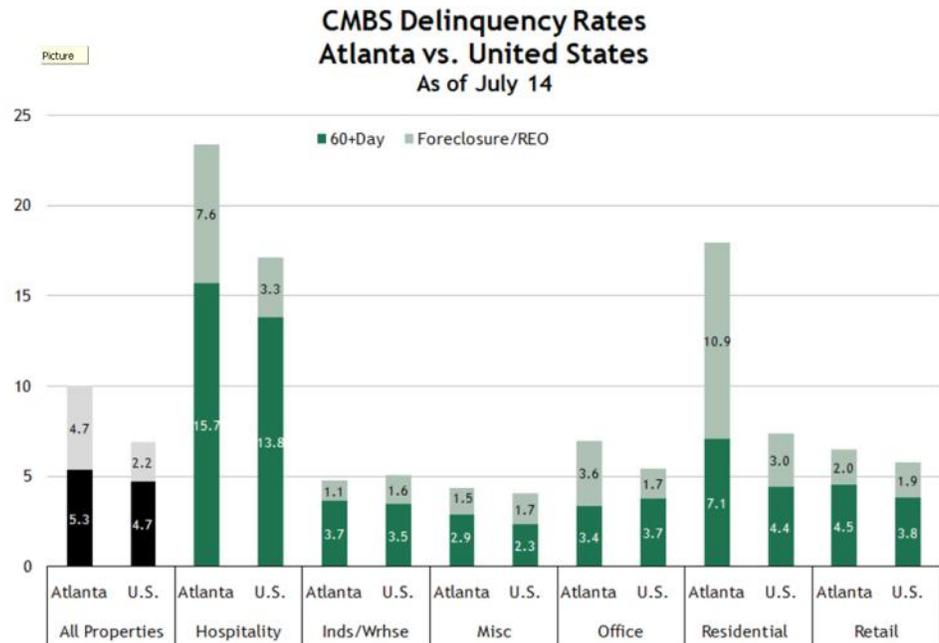
Delinquency rates on securities backed by commercial mortgages continue to rise.



- Delinquency rates for all properties was 7% as of July 14 and 17% for CMBS backed by hospitality properties.

CMBS backed by Atlanta properties have higher delinquency rates than the United States as a whole.

Delinquency rates of hospitality- and residential-backed CMBS are significantly higher in the Atlanta area.



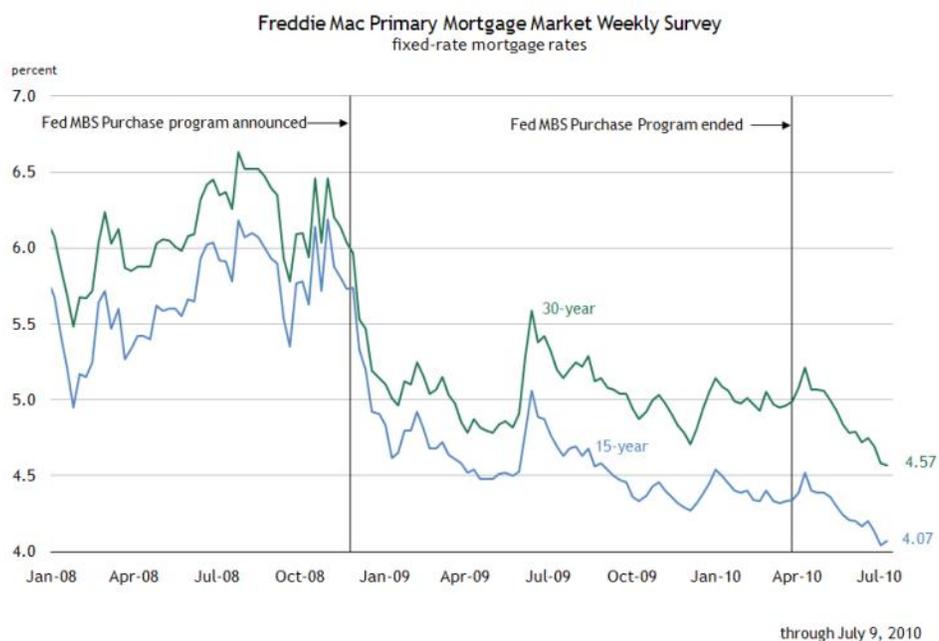
# Residential Mortgages

## Summary

Fixed rates for 30- and 15-year mortgages continue to hover around record low levels.

At 4.57%, the 30-year fixed rate has not been lower in the 39-year history of the survey.

Last week, the 15-year fixed rate was at the lowest point since Freddie Mac began tracking it in August 1991, when it averaged 4.27%.



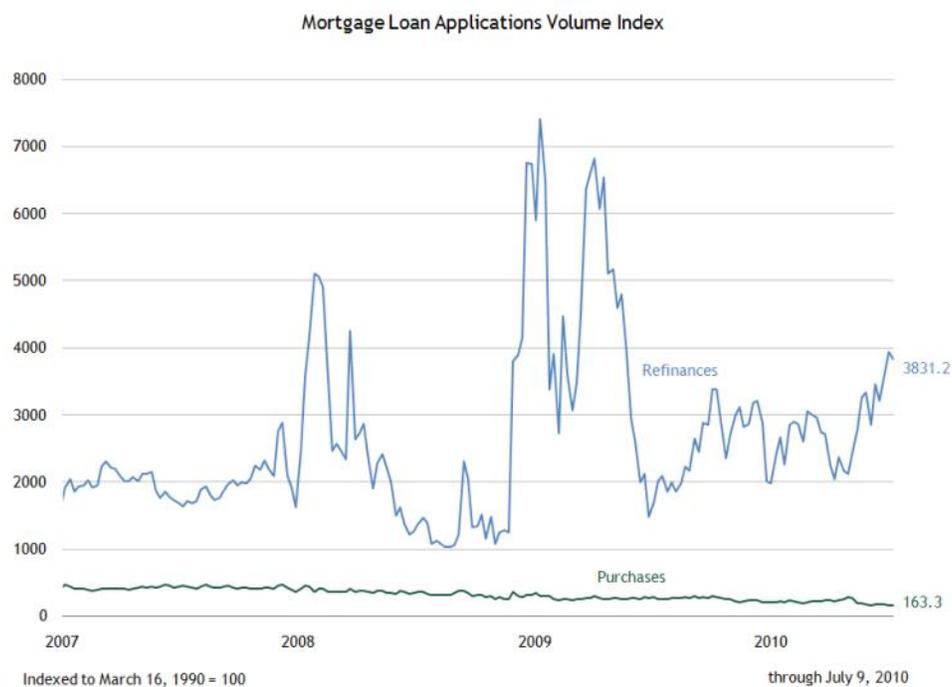
Source: Federal Home Loan Mortgage Corporation/Haver Analytics

- The 30-year fixed rate averaged 4.57%, down slightly from 4.58% a week ago; the 15-year fixed rate averaged 4.07%, rising slightly from 4.04% a week ago. At this time last year, the 30-year fixed rate averaged 5.20%; the 15-year fixed rate averaged 4.69%.

Despite relatively low interest rates, purchase applications have declined during the past month. The purchase index is at its lowest point since December 1996.

The refinance index decreased 2.9% 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.



Source: Mortgage Bankers Association/Haver Analytics

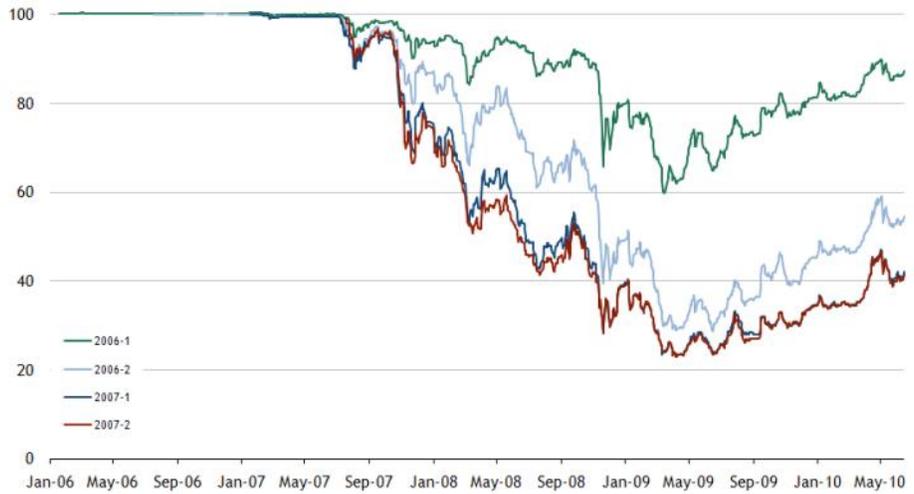
- For the week ending July 9, total mortgage application volume decreased 2.9% from one week earlier.
- The refinance share of mortgage activity remained at 78.7% of total applications.

# ABX and CMBX

## 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.

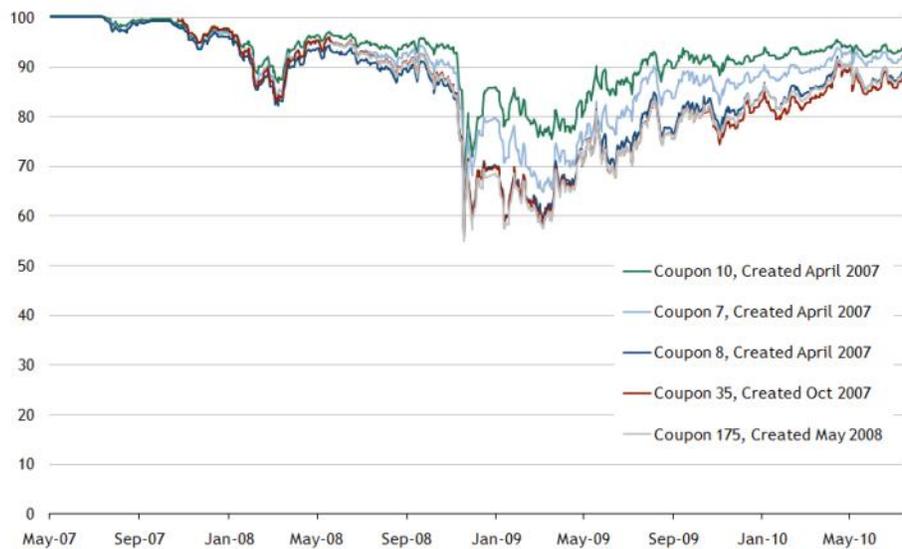
ABX.HE Indices, AAA rated by Vintage  
price, points of 100%



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 of insuring against default of commercial MBS.

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

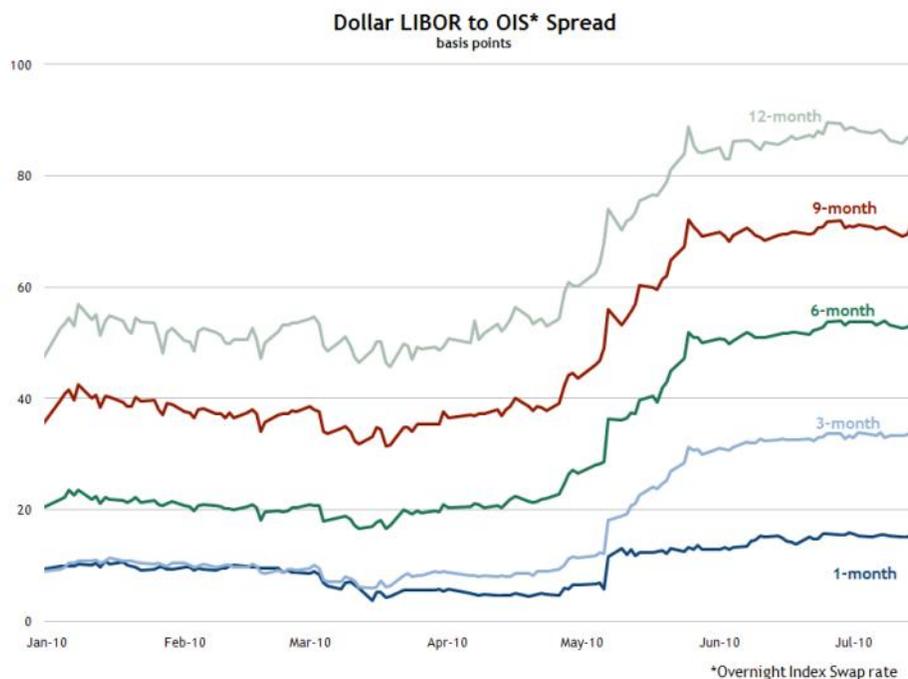


Source: Markit Group Limited/Haver Analytics

# Broad Financial Market Indicators

## Summary

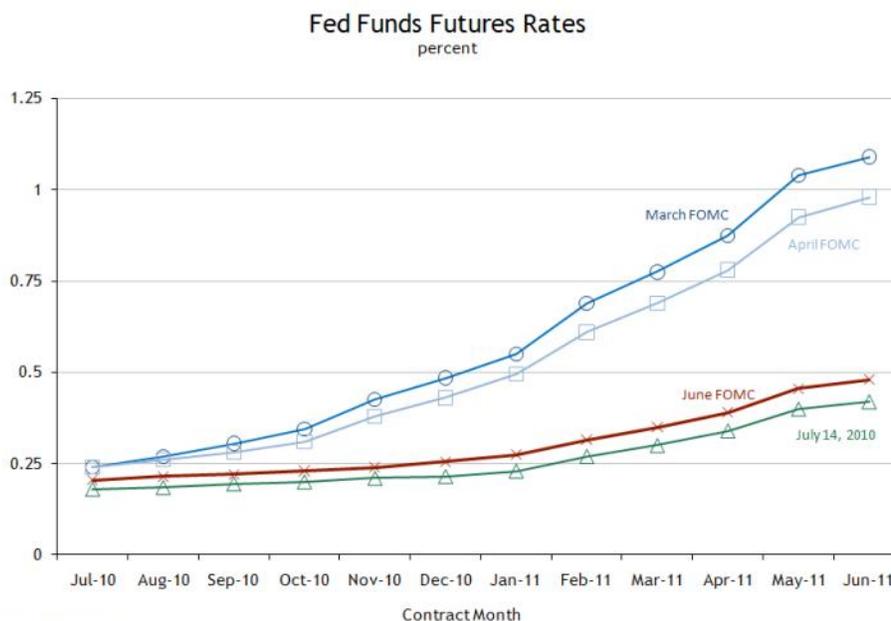
LIBOR to OIS spreads have been relatively stable, moving within 2 basis points since the June FOMC meeting.



Source: Bloomberg/British Bankers' Association

- Since the June FOMC meeting, Dollar LIBOR to OIS spreads are stable within a few basis points. Through July 14, the one- and three-month spreads are at 15.6 bps and 34.1 bps, respectively, while the six-, nine-, and 12-month spreads are at 53.3 bps, 71.0 bps, and 86.7 bps, respectively.

The curve of expected rates from the fed funds futures has flattened slightly since the June FOMC meeting, pushing back the first expectation of a Fed rate increase to mid-2011.



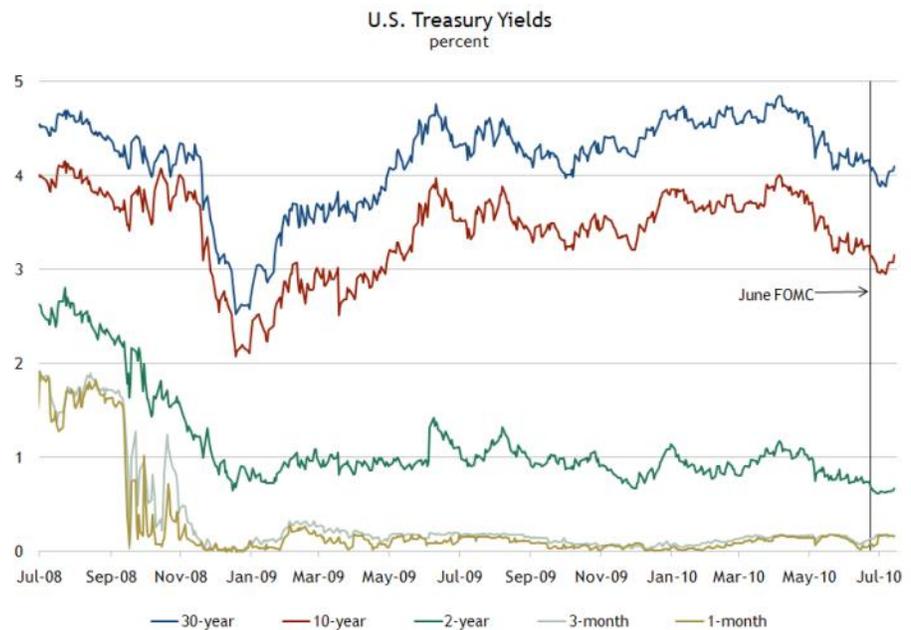
Source: Bloomberg

- In the three weeks since the June FOMC meeting, the fed funds futures market pushed back its expectation of a rate increase to mid-2011.
- As of July 14, the futures market for fed funds indicates an implied rate of about 42 bps for the June 2011 contract.

# Broad Financial Market Indicators

## Summary

Longer-dated Treasury yields are up slightly since the June FOMC meeting.



Source: Federal Reserve Board

- In the three weeks since the June FOMC meeting, longer-dated Treasury yields moved slightly higher across the two-to-30 year curve: Through July 13, the 30-year bond is up 5 bps to 4.10%, the 10-year bond is 2 bps higher at 3.15%, and the two-year note is up 1 bp to 0.67%.