

Financial Highlights

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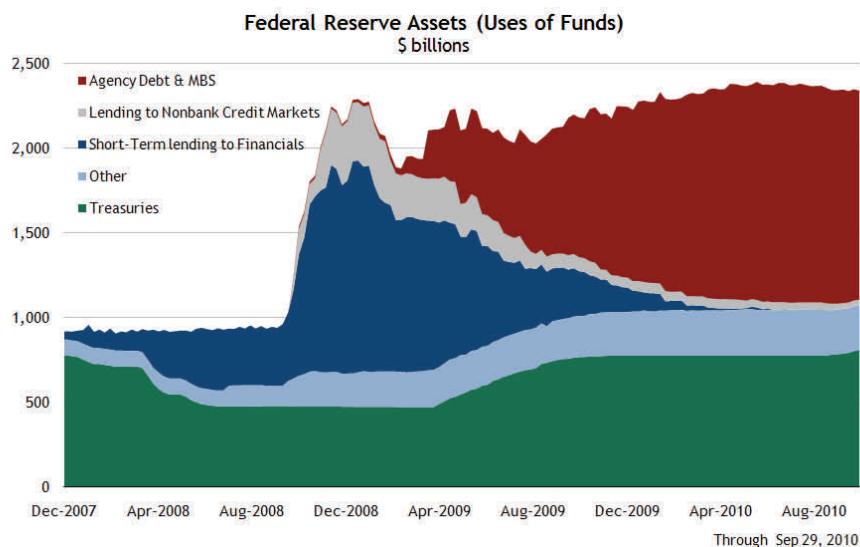
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Federal Reserve

Summary

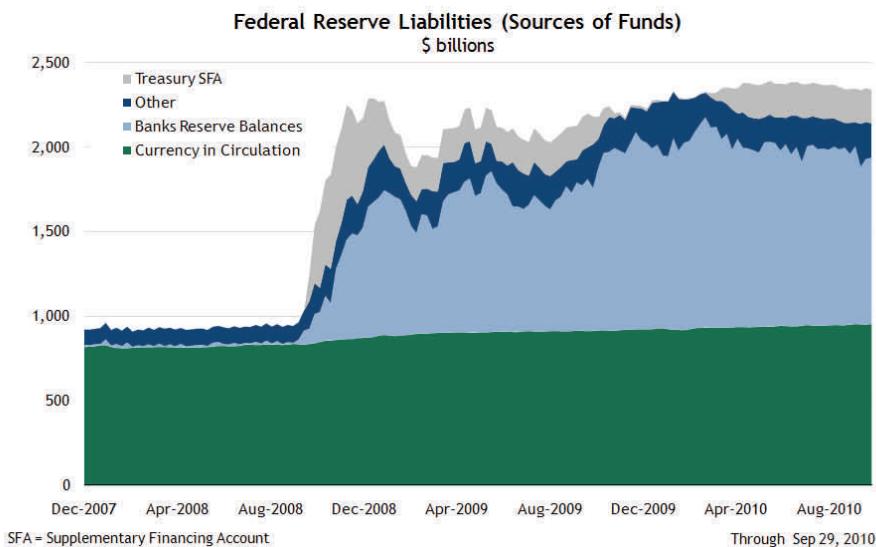
The balance sheet remained little changed, decreasing by \$8.6 billion for the week ended September 29.



Source: Federal Reserve Board

- Treasuries continue to replace MBS on the balance sheet; Treasuries increased by \$6.5 billion, while MBS declined by \$13.3 billion.

Treasury deposits with Federal Reserve banks fell by \$19.6 billion, partially offset by a \$7.3 billion increase in reverse repurchase agreements (both are part of "Other"). Banks' reserve balances also increased by \$1.6 billion, and currency in circulation increased by \$3.1 billion.



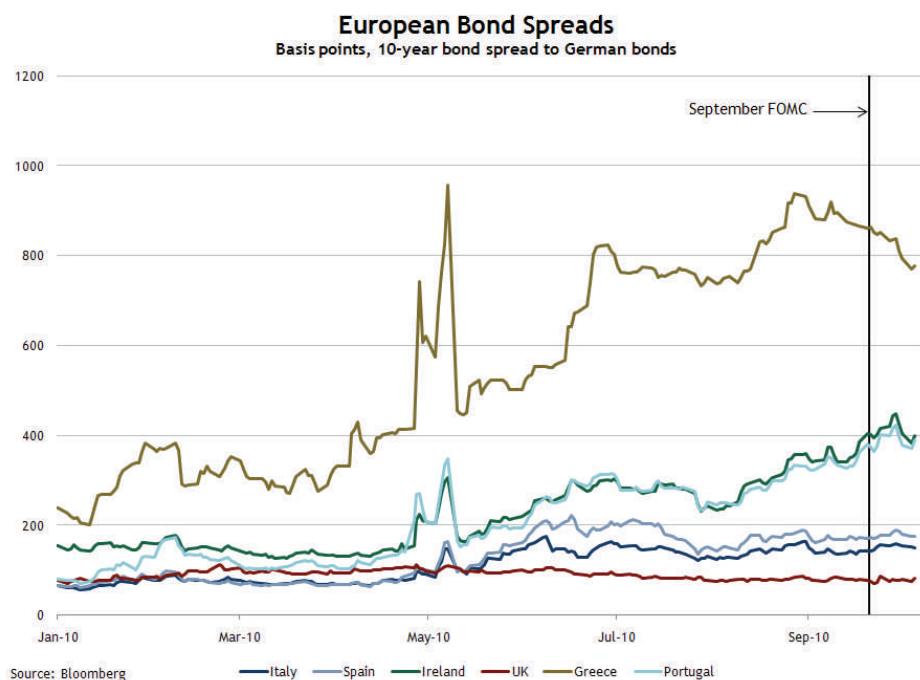
Source: Federal Reserve Board

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

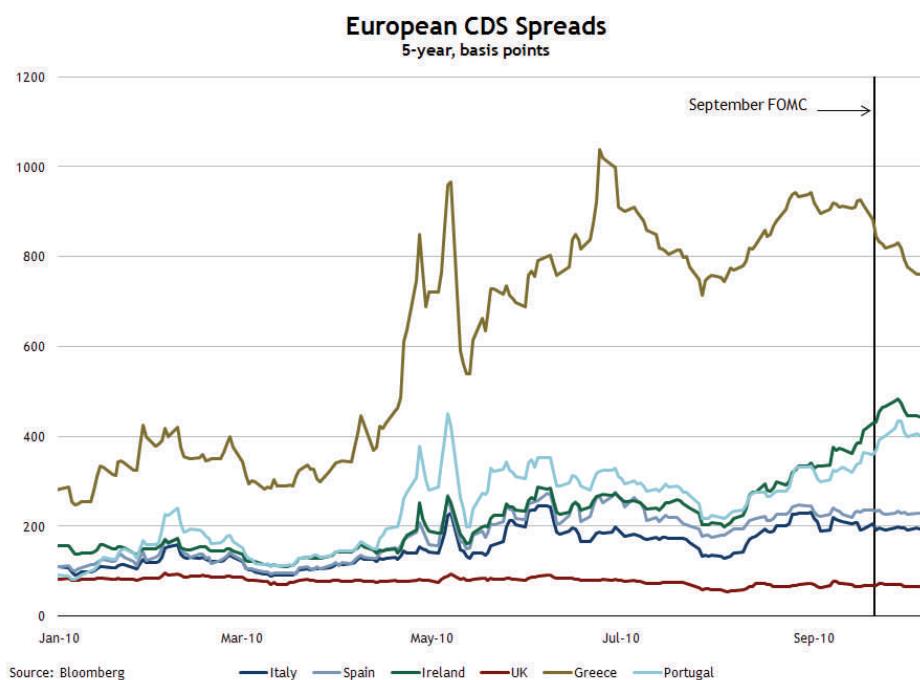
European Debt

Summary

In the past two weeks, the Greek bond spread has declined nearly 90 basis points (bps), while other countries' spreads have stabilized, albeit at highly stressed levels.



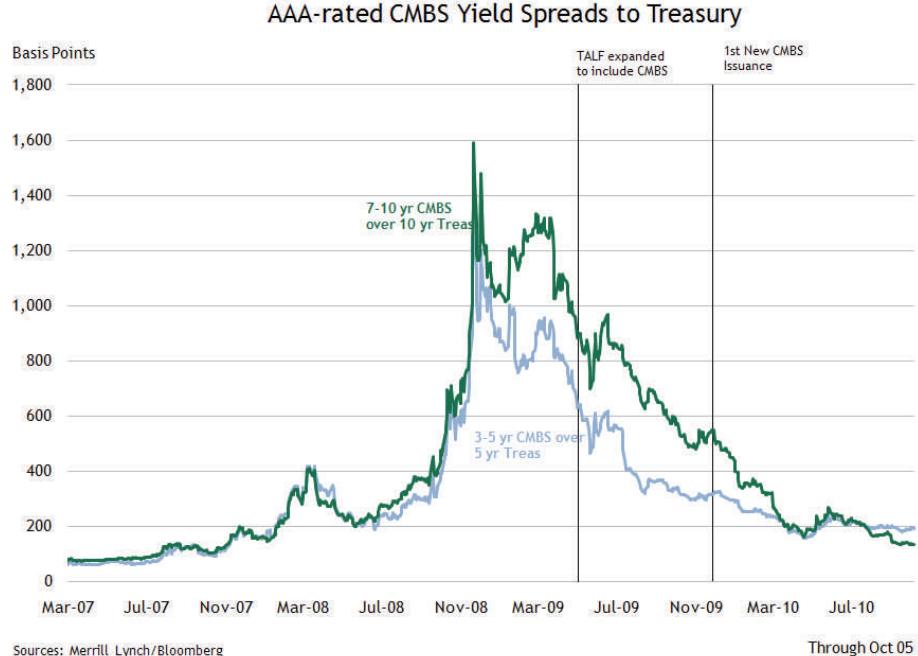
Since the last FOMC meeting, while CDS spreads have fallen for Greece and stabilized for Portugal and Ireland, levels remain elevated.



Securitization Markets

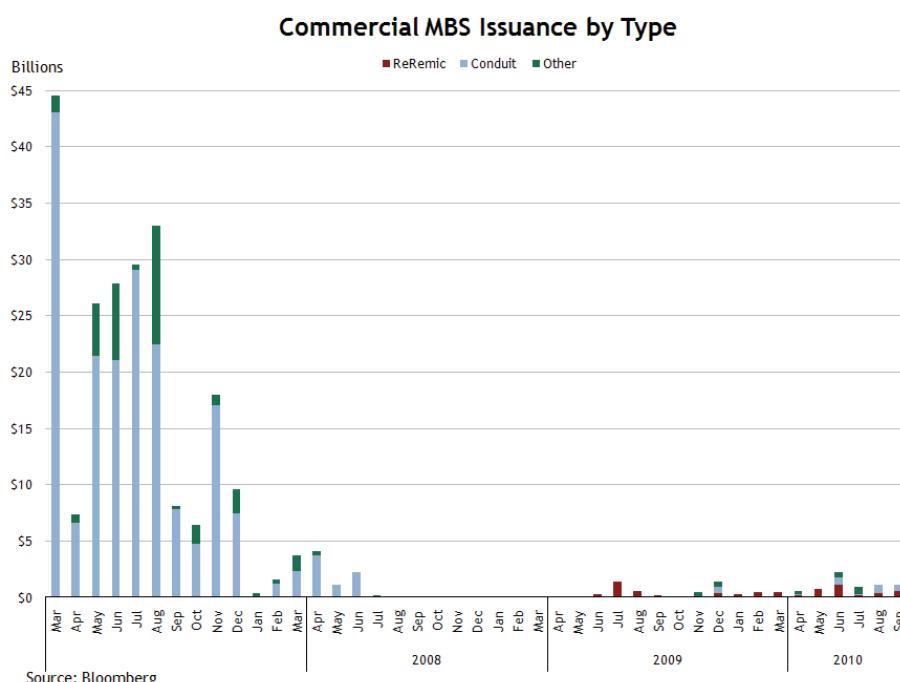
Summary

CMBS yields over Treasuries have been relatively stable since March.



CMBS issuance remains depressed, but deals are occurring.

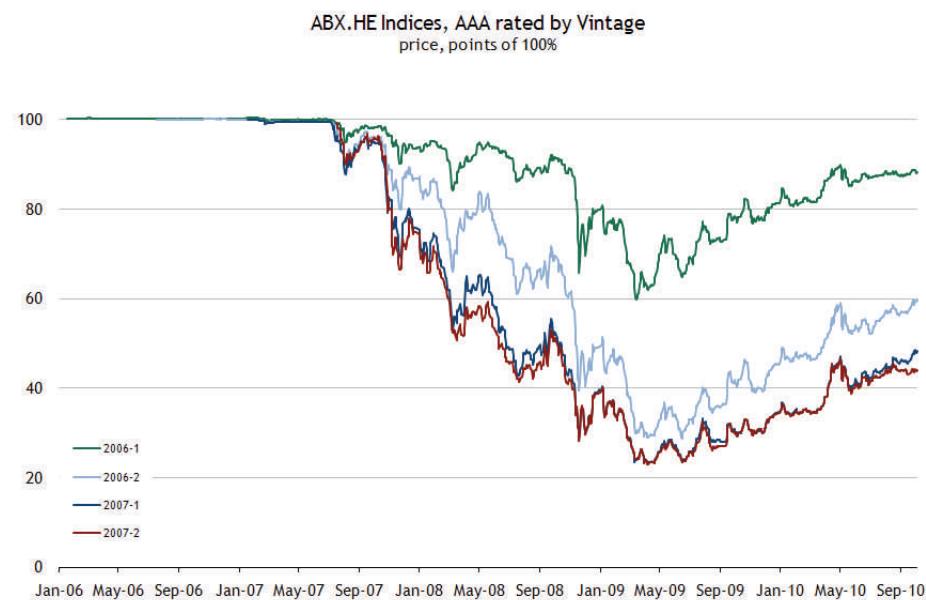
Re-REMIC deals remain popular, with many securities still on a watchlist for a ratings downgrade.



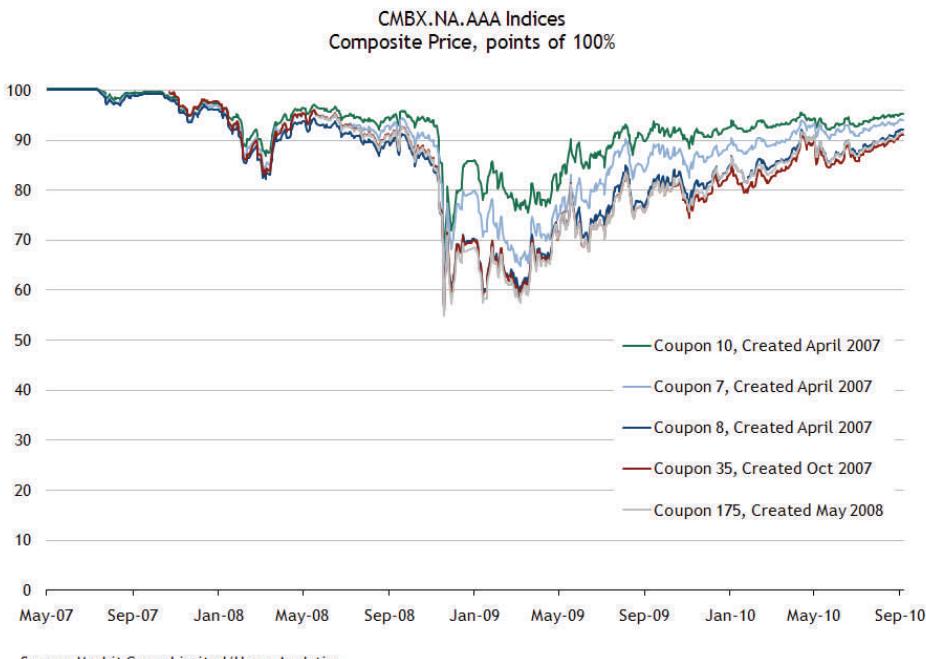
Securitization Markets

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.



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.



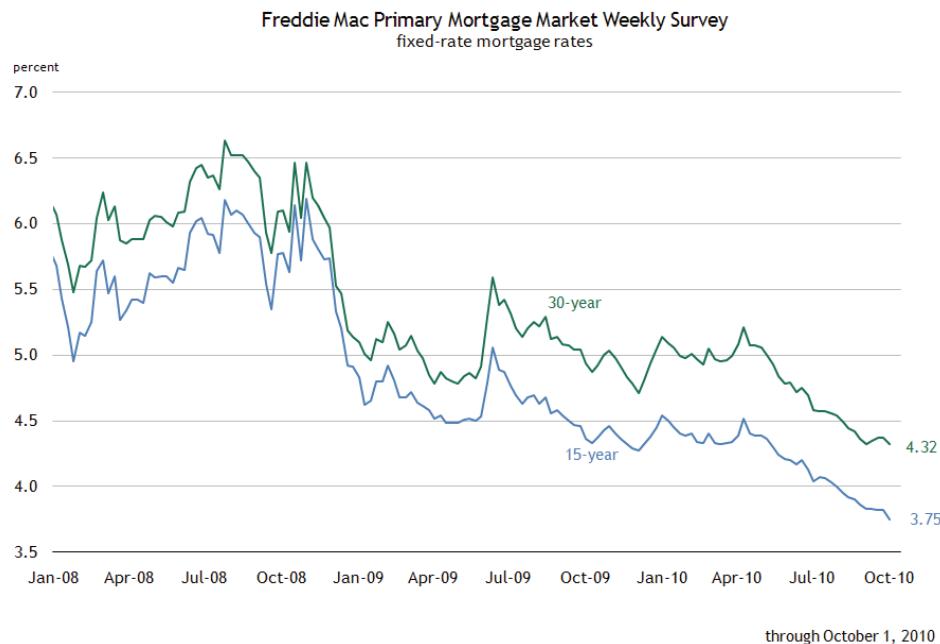
Mortgage Rates

Summary

Rates for 30- and 15-year fixed mortgages fell again as the 30-year fixed rate tied the all-time low set four weeks ago and the 15-year fixed rate set another record low.

At 4.32%, the 30-year fixed rate tied the record low set on September 3.

The 15-year rate averaged 3.75% for the first time since tracking began in 1991.



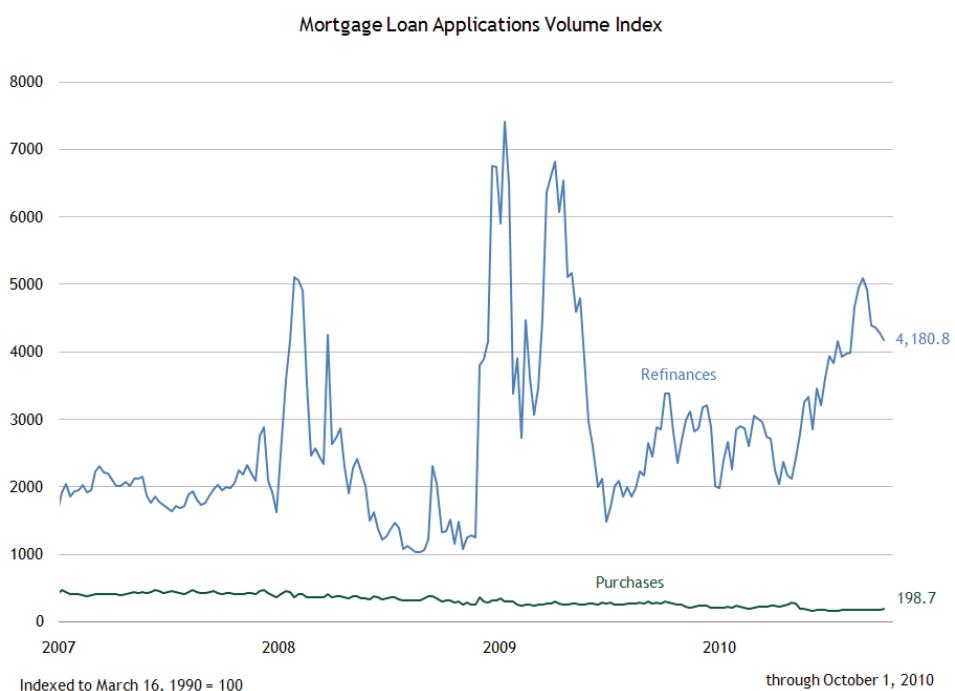
Source: Federal Home Loan Mortgage Corporation/Haver Analytics

- The 30-year fixed rate averaged 4.32%, down slightly from 4.37% a week ago. At this time last year, the 30-year fixed rate averaged 4.94%.
- The 15-year fixed rate averaged 3.75%, down from 3.82% a week ago. At this time last year, the 15-year fixed rate mortgage averaged 4.36%.

The purchase index is up 9.3% from one week earlier and is at its highest level since the week ending May 7, 2010.

The refinance index declined 2.5% 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. The survey has been conducted weekly since 1990 and covers more than 50 percent of all U.S. retail residential mortgage applications.



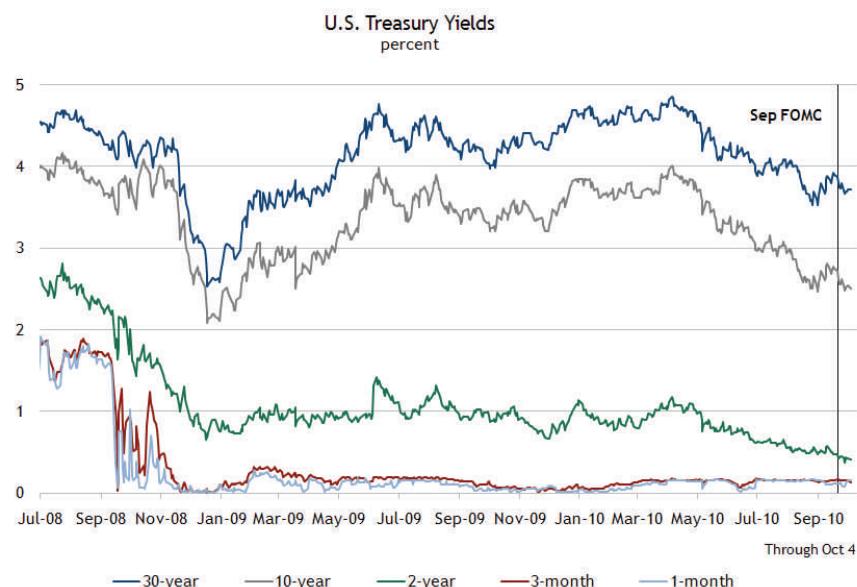
Source: Mortgage Bankers Association/Haver Analytics

- The refinance share of mortgage activity decreased slightly to 78.9%, from 80.7% the previous week.

Broad Financial Market Indicators

Summary

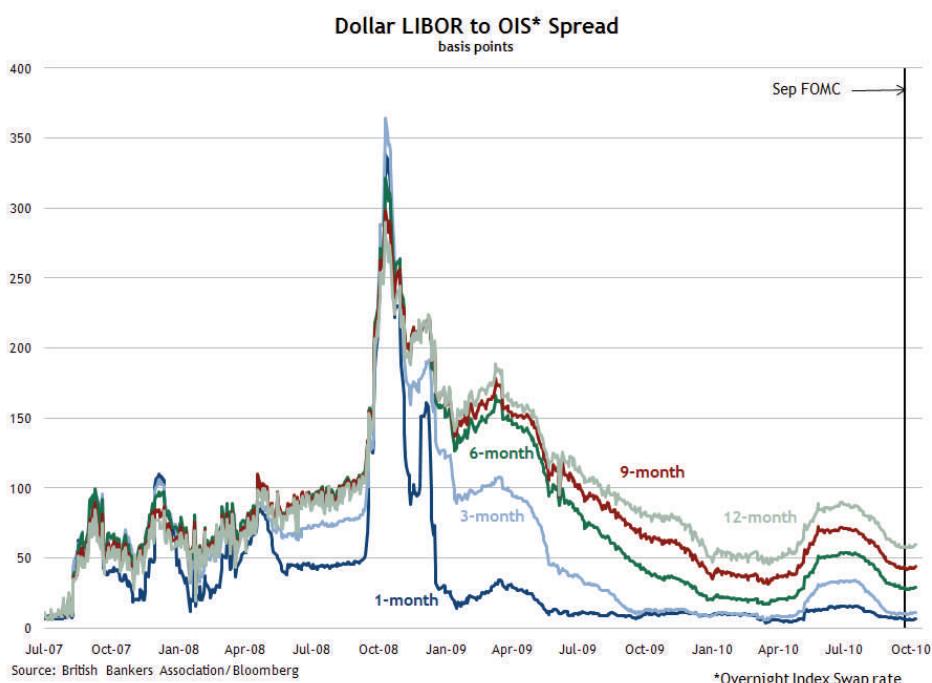
Longer-dated Treasury yields are slightly lower than the day of the September FOMC meeting.



Source: Federal Reserve Board/Haver Analytics

- Thirty-year Treasury bonds have declined 8 basis points (bps) to 3.71% since the September FOMC meeting; 10-year Treasury bonds have also declined, by 11 bps, to 2.50%.

LIBOR to OIS spreads, after a period of normalization this summer, are relatively unchanged since the September FOMC meeting.



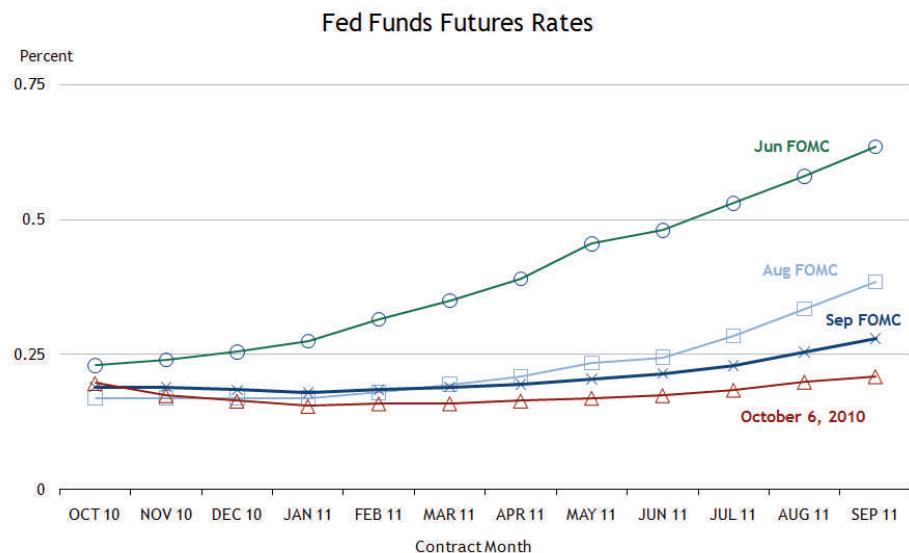
Source: British Bankers Association/Bloomberg

*Overnight Index Swap rate

Broad Financial Market Indicators

Summary

The curve of expected rates from the fed funds futures market is slightly lower since the September 21 FOMC meeting.



Source: Bloomberg

- The fed funds futures markets currently does not expect a rate increase in 2011.
- As of October 6, the futures market for fed funds indicates an implied rate of about 21 bps for the September 2011 contract, about 115 bps lower than what followed the June FOMC meeting.