FEDERAL RESERVE BANK of ATLANTA

July 15, 2009

Financial Highlights

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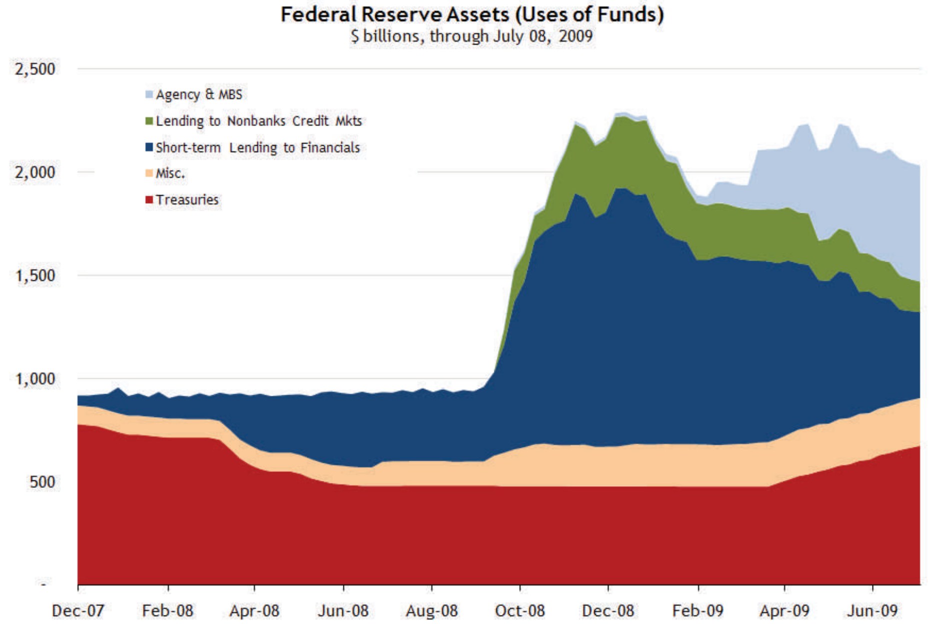
Federal Reserve

Summary

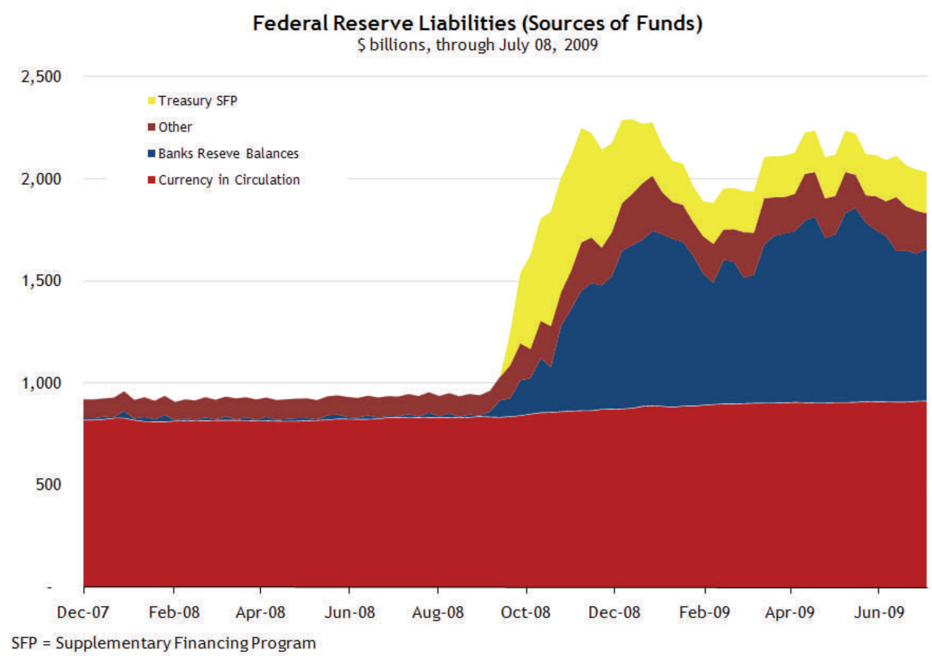
The Fed's balance sheet declined for the seventh time in the last eight weeks, declining by a total of $188 billion from May 20 to July 8.



Source: Federal Reserve Board

- While the overall size of the Fed's balance sheet has been shrinking slightly over the last two months, the composition of the balance sheet has changed.
- There have been sizeable declines in short-term lending to financials and lending to nonbank credit markets. For example, combined, TAF credit, currency swaps, and the CPFF have fallen by about one-half from over $1 trillion on April 8 to just under $500 billion on July 8.
- Offsetting these declines have been increases in holdings of agency debt, agency mortgage backed securities (MBS), and U.S. Treasury securities. Combined, these three categories have increased by about $430 billion since April 8.

On the liabilities side, bank reserve balances continue to make up a large portion of the balance sheet, accounting for about 37% of liabilities; currency in circulation accounts for about 45%.



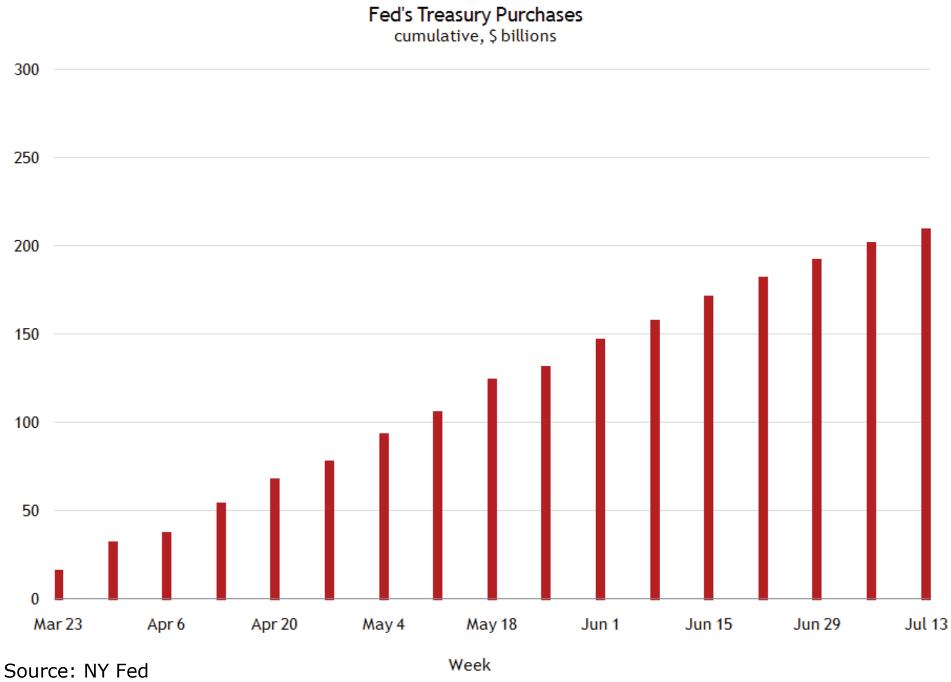
Source: Federal Reserve Board

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 Supplemental Financing Program.

Federal Reserve

Summary

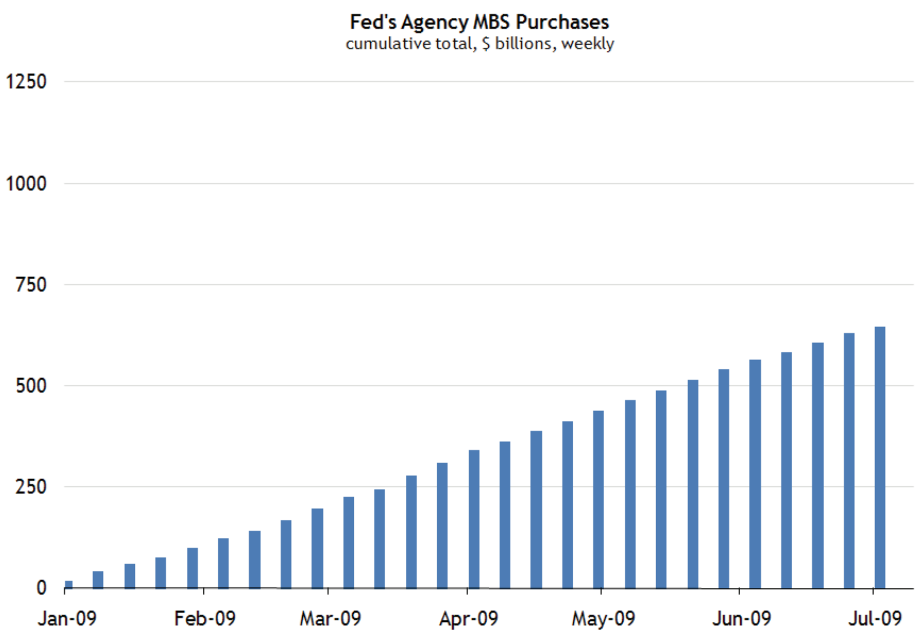
The Fed has purchased a total of $208 billion in Treasuries since March, representing about two-thirds of the program's $300 billion capacity.



Source: NY Fed

- The Fed purchased $7.5 billion of Treasury securities on July 14 and tentatively plans to make a TIPS purchase in an operation on July 16.
- The Fed has said it will buy up to $300 billion in Treasuries by autumn.

The Fed has purchased a net total of $639 billion in agency MBS, which represents just over half of the program's $1.25 trillion capacity.



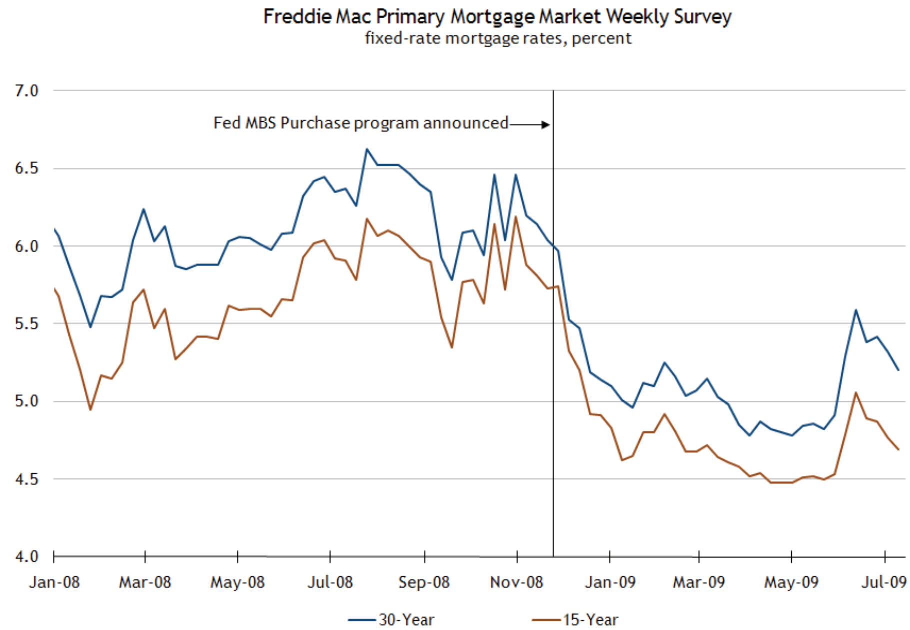
Source: NY Fed

- Between July 2 and July 8 the Fed's net purchases of agency-backed MBS totaled $17.05 billion, a bit below the average weekly purchase rate of nearly $24 billion over the prior eight weeks.

Mortgage Markets

Summary

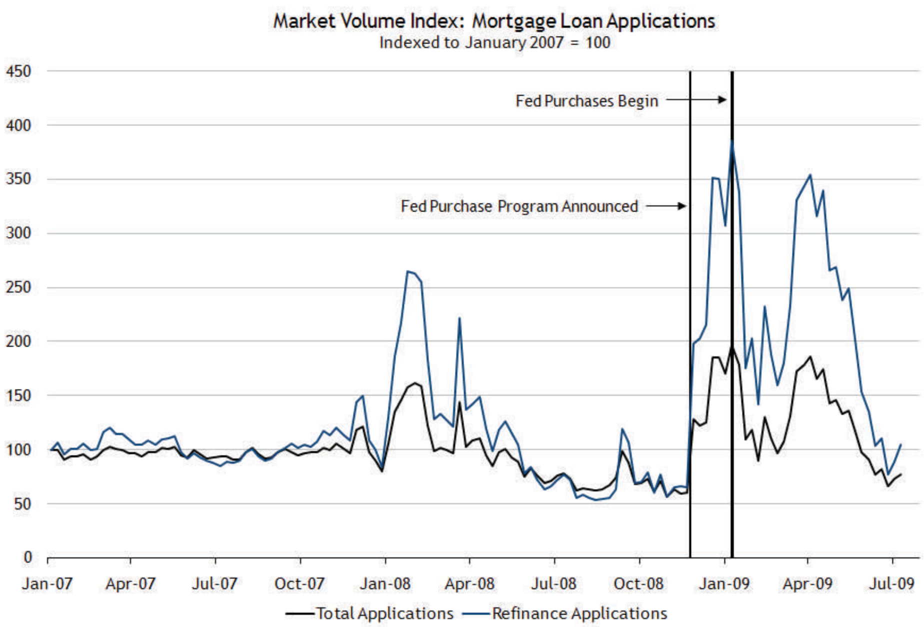
Both the 30- and 15-year fixed mortgage rates were little changed from the previous week but are above record lows set in April and May.



Source: Federal Home Loan Mortgage Corporation/Haver Analytics

- For the week ending July 10, mortgage rates changed only slightly; both the 30-year fixed rate and the 15-year fixed rate declined to 5.20% and 4.69%, respectively.

Both total mortgage loan application volume and refinance application volume remain below their peaks in January and April.



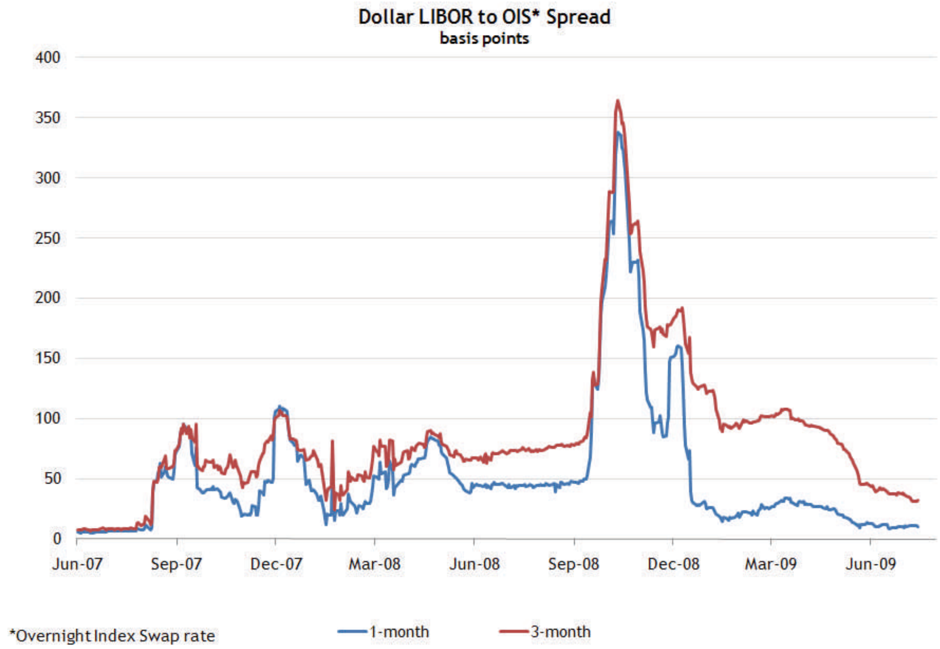
Source: Mortgage Bankers Association/Haver Analytics

- For the week ending July 10, total mortgage application volume and total refinance application volume increased over the previous week. Total mortgage application volume remains 23% lower than the January 2007 level; total refinance application volume is 4.5% higher.

Financial Markets

Summary

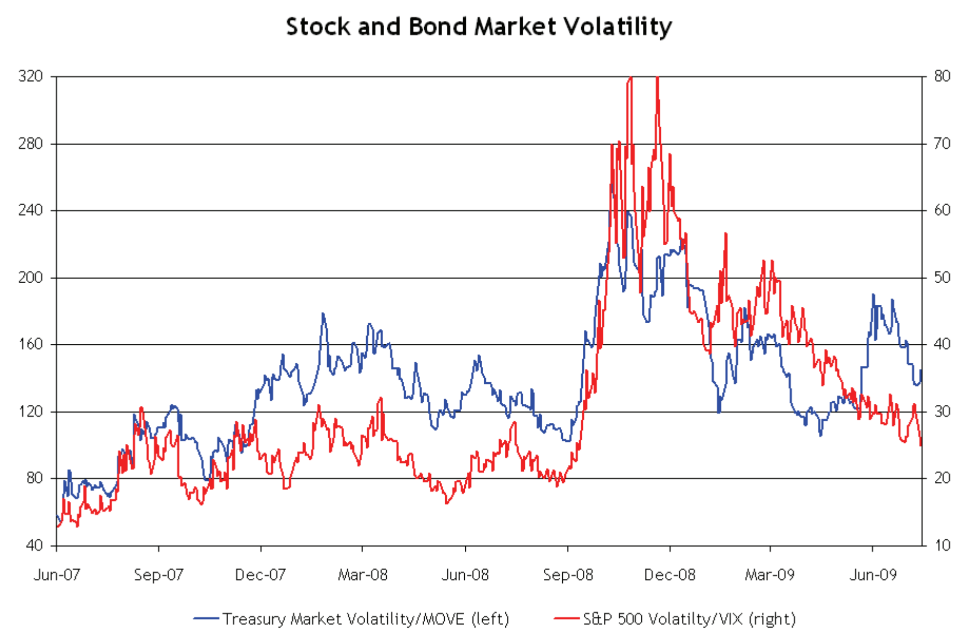
LIBOR-to-OIS spreads have continued to narrow in recent weeks with the one-month now close to precrisis levels.



Source: Bloomberg and British Bankers' Association

- Since March 18, LIBOR to OIS spreads have narrowed significantly. For the three-month, it has moved from 107 to 32 basis points (bps), and for the one-month it has gone from 33 to 10 bps as of July 14, narrowing 75 and 24 bps, respectively.

Bond market volatility, having been on the rise since mid-May, has drifted lower over the past two weeks, while equity volatility has stabilized.



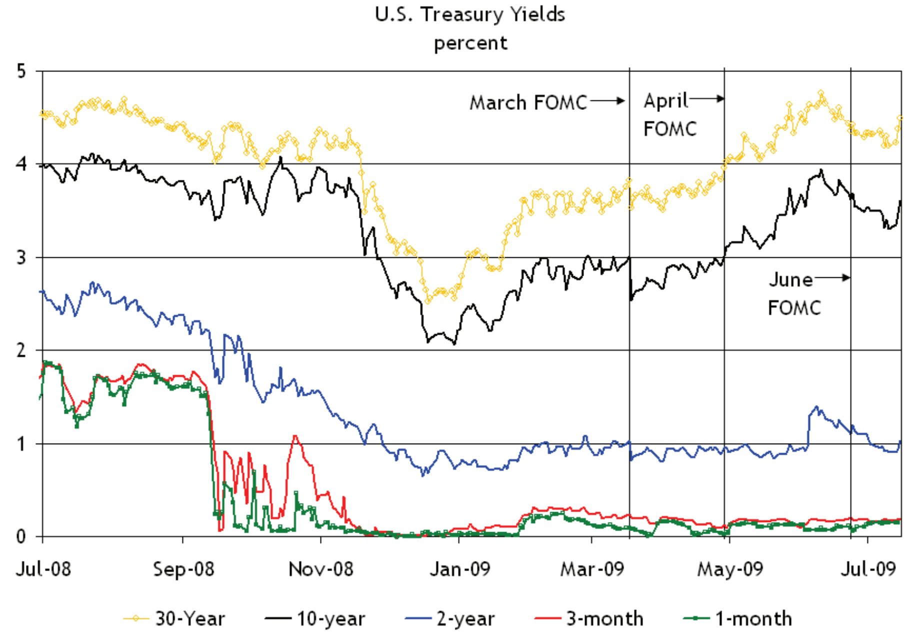
Source: Bloomberg

- The Merrill Lynch Option Volatility Expectations (MOVE) index, a measure of bond market volatility, has risen steeply, from about 123 May 20 to 187 as of June 18, but has eased to 145 as of July 14.
- The Volatility Index (VIX) of the Chicago Board Options Exchange (CBOE), a measure of equity market volatility, has reached its lowest point since before Lehman Brothers filed for bankruptcy in September 2008.

Financial Markets

Summary

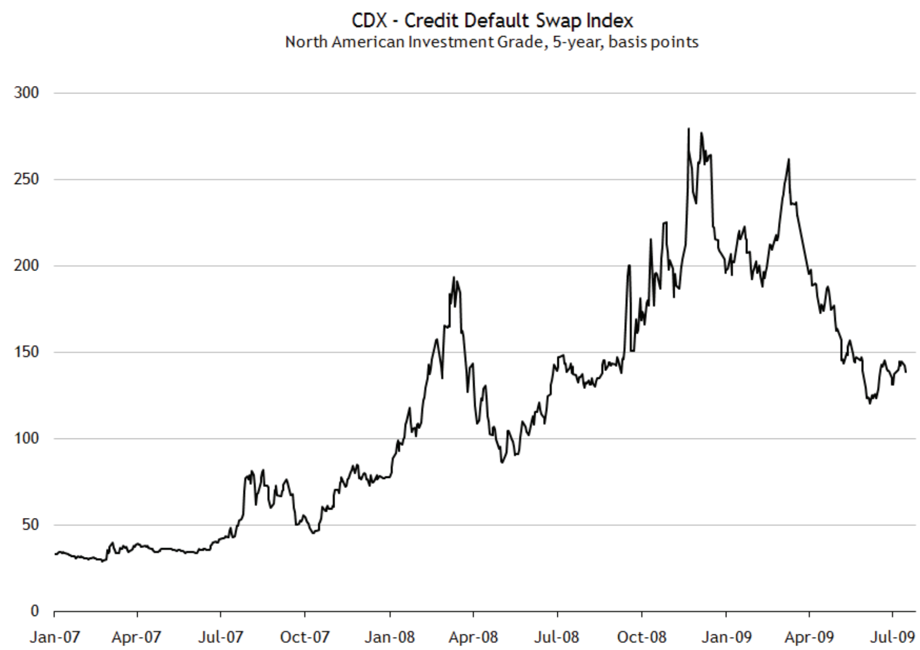
Longer-dated Treasury yields have edged downward during the past month.



Source: Bloomberg

- As of July 8, the 10-year Treasury note and 30-year Treasury bond yielded 4.5% and 3.6%, respectively. During the past month (since June 15), the 10- and 30-year Treasury notes have declined by about 10 and 7 bps respectively.

The CDX has trended downward since March, consistent with improvement in perceived default risk among investment-grade bonds.

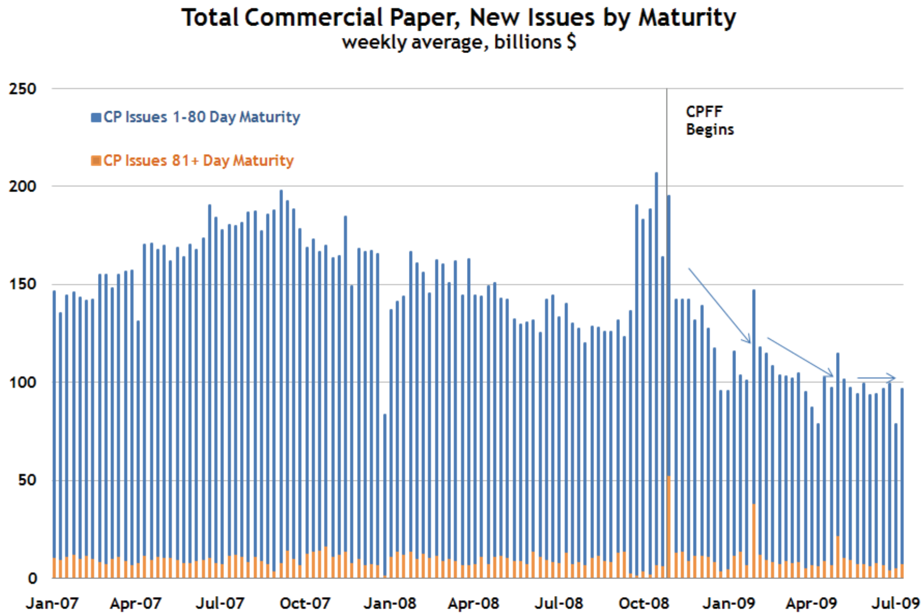


Source: Markit Group Limited/Haver Analytics

Financial Markets

Summary

The decline in new issues of commercial paper is slowing and has maintained an average of $120 billion since the week ended April 1.

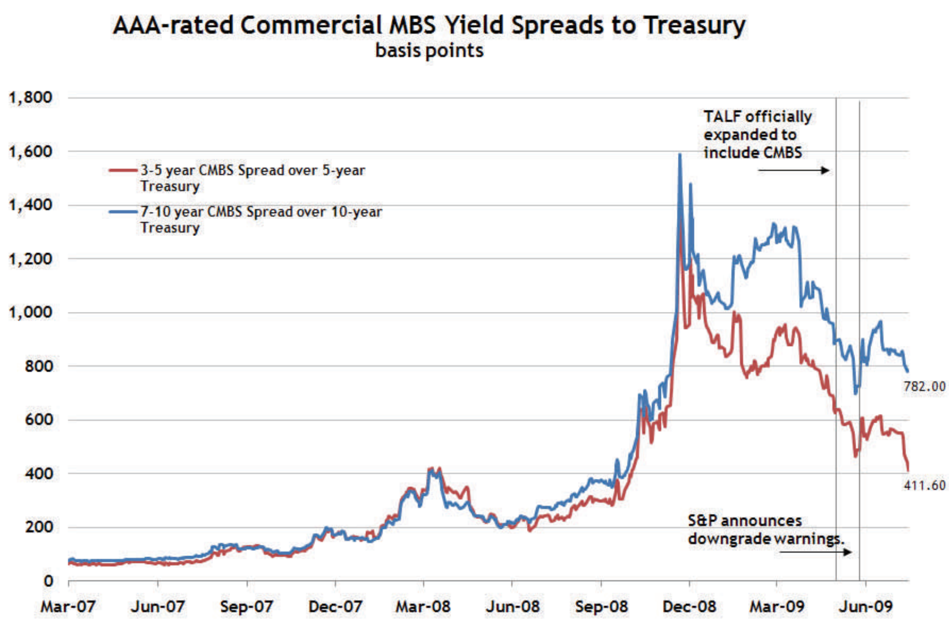


Source: Board of Governors

- Commercial paper issuance was $123 billion for the week ended July 8.

Yield spreads on AAA rated CMBS continue to narrow. Volatility in the market has been high during the past month and a half, with Standard and Poor's placing many AAA securities on negative watch for downgrade. This placement has reduced the amount of CMBS eligible at the TALF as CMBS on negative watch are not TALF-eligible.

The first TALF that will include legacy CMBS will take place Thursday, July 16.



Source: Bloomberg and Merrill Lynch

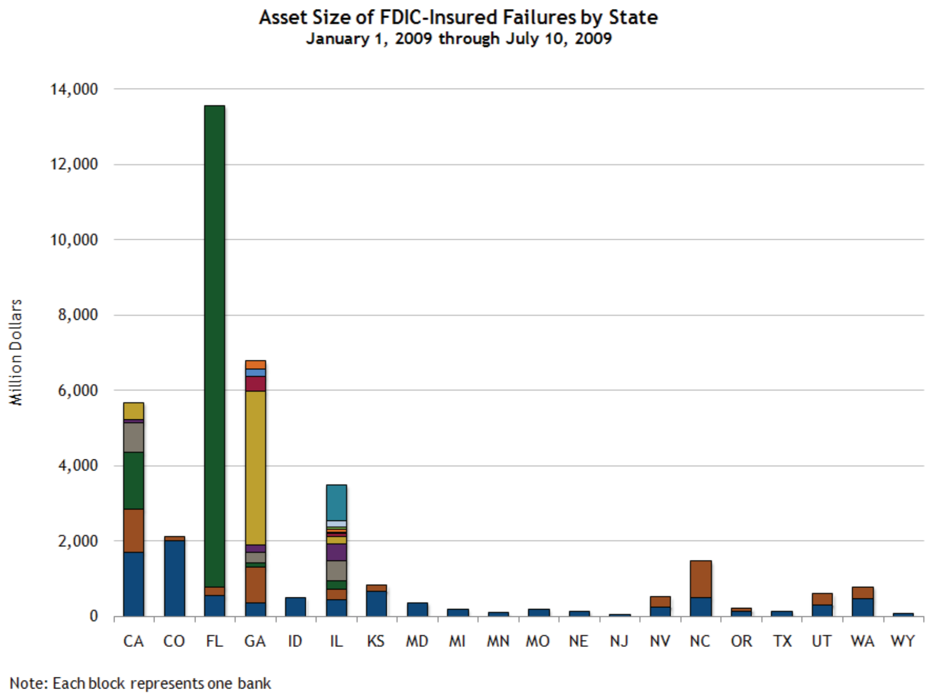
- A downgrade rating warning by Standard and Poor's on May 26 initiated the repackaging of pre-existing bonds into re-REMICs to insulate the most senior tranche of CMBS against future losses and ratings downgrades.
- On Tuesday, July 14, S&P decided to downgrade billions of dollars worth of AAA CMBS from the watch list and has announced that over the next three to six months it will decide whether the other securities currently on downgrade watch will be downgraded.
- This downgrading has put some downward pressure on yields, but compared with a year ago yields are still high. The three-to-five-year CMBS yield spread over the benchmark interest rate is 185 bps higher than this time last year, and the seven-to-10-year CMBS spread is 512 bps higher than a year ago.

Bank Failures

Summary

Regulators closed one bank in Wyoming last week, bringing the number of failures in 2009 to 53.

There have been a total of 78 bank failures since the beginning of 2008. Georgia leads the nation with 14, followed by Illinois with 13, California with 11, and Florida and Nevada with five each.



Source: FDIC press releases

- Bank of Wyoming (Thermopolis), with approximately $70 million in assets on June 30, 2009, was the first bank failure in Wyoming this year.