FEDERAL RESERVE BANK of ATLANTA

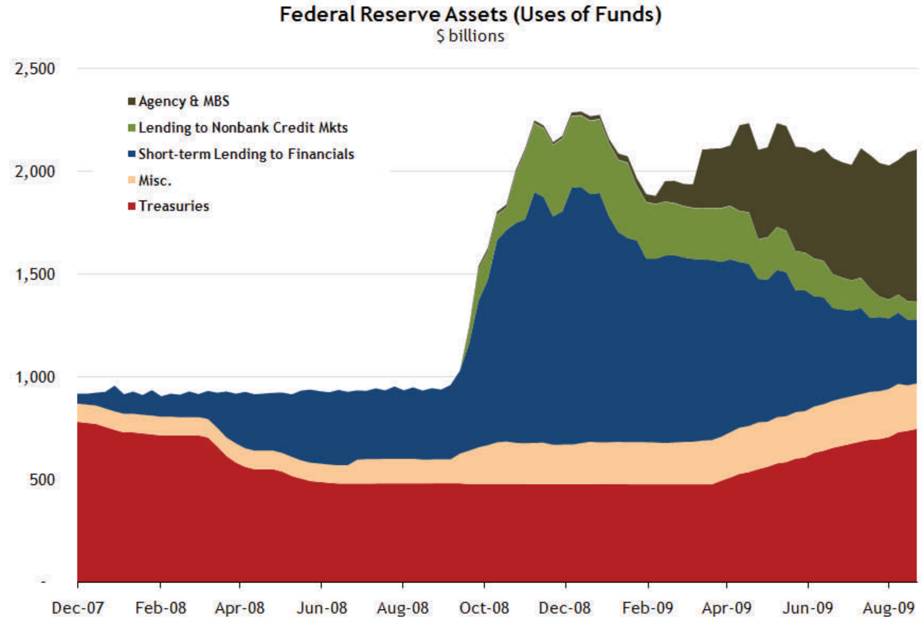
September 2, 2009

Financial Highlights

Federal Reserve

Summary

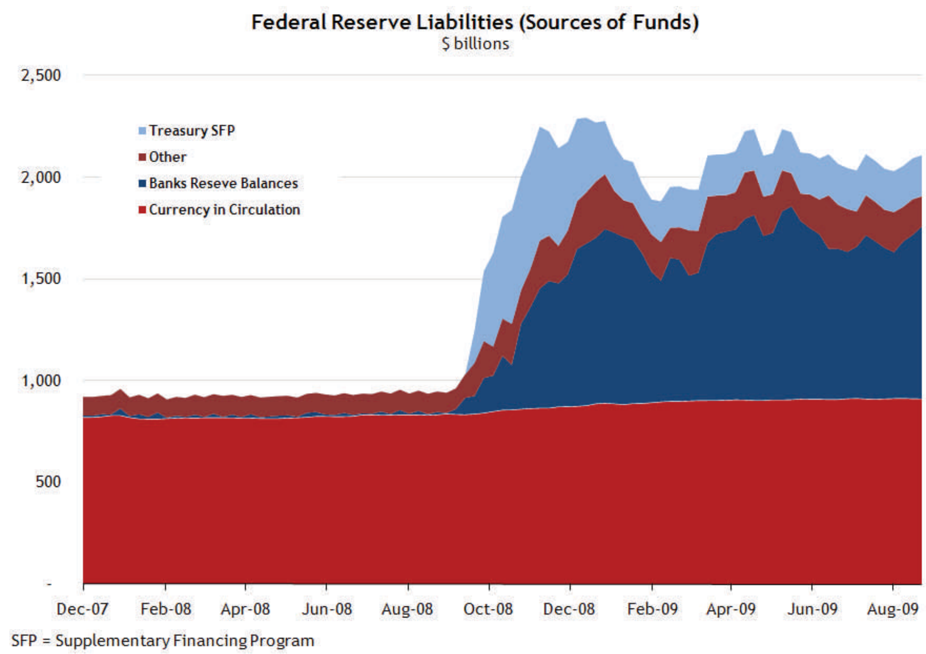
The size of the Fed's balance sheet has largely been flat since March, remaining within a range of $2 trillion to $2.2 trillion.



Source: Federal Reserve Board

- The overall size of the Fed's balance sheet has been flat during the past few months, and the broad trends remain little changed. That is, the sizeable declines in short-term lending to financials and nonbank credit markets have largely been offset by increases in holdings of Treasury securities, mortgage-backed securities (MBS), and agency debt.
- On Friday, the Federal Reserve Board announced a reduction for the two September TAF auctions, lowering both from $100 billion to $75 billion. The Board has cut the amounts available in the TAF auctions three times in $25 billion increments (from the program's maximum of $150 billion, last available in June).

On the liabilities side, bank reserve balances continue to make up a large portion of the balance sheet. Since March, reserves have averaged about $800 billion, accounting for 38% of liabilities.



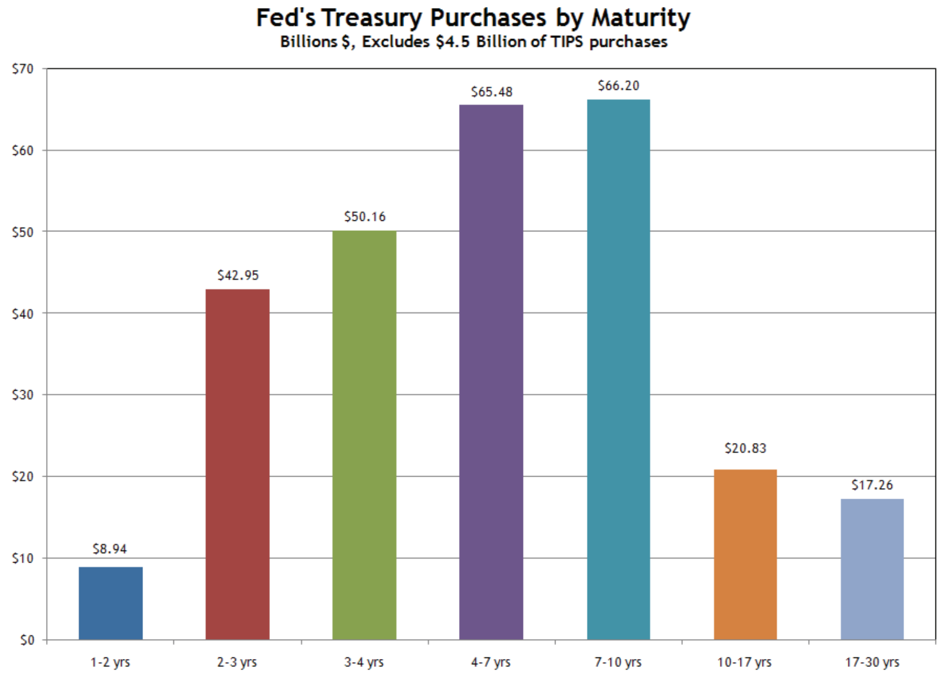
Source: Federal Reserve Board

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

Decomposing the Fed's purchases of Treasury securities by maturity shows a heavy focus in the four-to-seven-year and seven-to-10-year sectors, together making up half of all purchases so far.

But the last four Treasury purchases have been focused elsewhere, with the biggest purchases in the shorter end of the yield curve.



Source: NY Fed

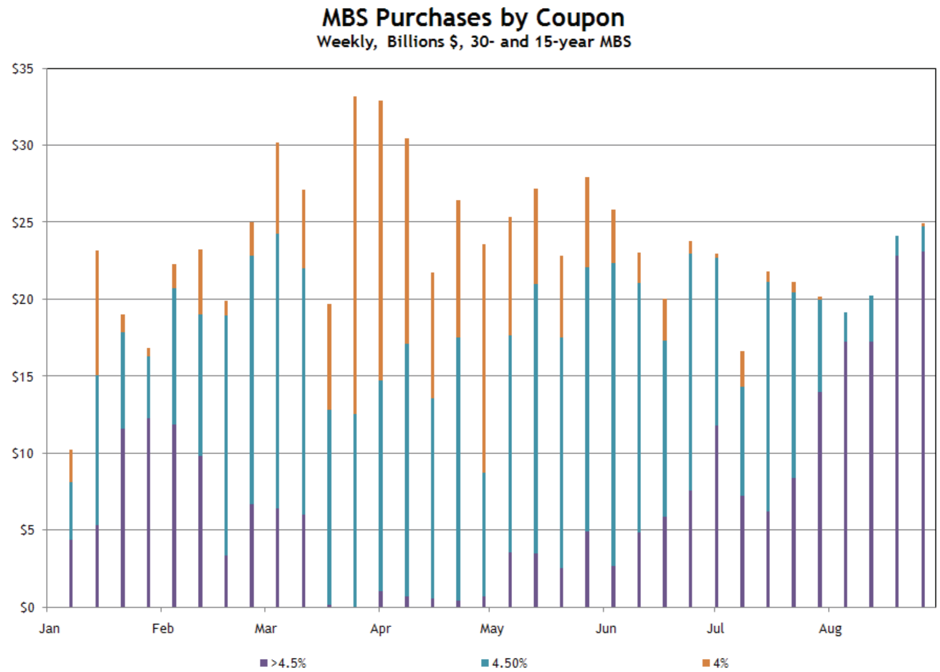
- The Fed has purchased a total of $276.4 billion of Treasury securities through September 2. Of the $271.8 billion in non-TIPS securities, the Fed has focused on the four-to-seven-year and seven-to-10-year sectors the most, purchasing approximately $65 billion in each (totaling about half of all purchases).
- The two-to-three-year and three-to-four-year sectors have also received a fair amount of attention, especially following two large purchases in the last week and a half in each sector. Recently, the Fed purchased $6.1 billion in the two-to-three-year sector on August 24, $2.3 billion in the 17-to-30-year sector on August 26, and $5.6 billion in the three-to-four-year sector on September 1.
- The FOMC statement released on Wednesday, August 12, said the Fed is "in the process of buying $300 billion of Treasury securities" by the end of October. This statement was an adjustment from previous statements that stated "up to" $300 billion in purchases would be made "by autumn."

Federal Reserve

Summary

Between August 20 and 26, the Fed purchased $25.4 billion in MBS. Continuing a pattern seen the last five weeks, most of the MBS had a 5% or 5.5% coupon.

Earlier in the history of the purchase program, however, the Fed made most of its purchases in the 4% or 4.5% coupon areas.



Source: NY Fed

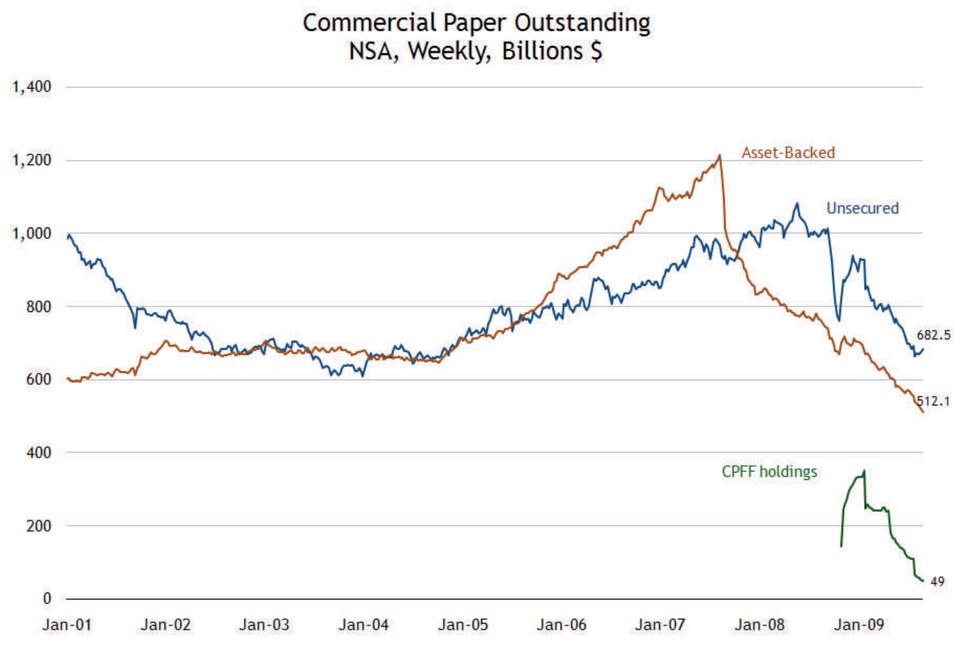
- The Fed purchased a net total of $25.4 billion of agency-backed MBS between August 20 and 26, bringing its total purchases up to about $796 billion, and by year-end the Fed will purchase up to $1.25 trillion (thus, 64% of the purchases have been made).
- At the start of the program the Fed focused mostly on 4% and 4.5% coupon MBS, but since late July it has changed course to concentrate its purchases in higher-coupon areas, particularly the 5% and 5.5% coupons.
- Between August 20 and 26, its purchases were in the following coupons: $6.4 billion of 5.5% coupon MBS, $16.7 billion of 5%, $2.1 billion of 4.5%, and $200 million of 4%.

Commercial Paper

Summary

Commercial paper outstanding continues to decline. New issuance has remained stable at about $100 billion a week since late February but is far below average issuance in 2006 and 2007.

Commercial paper held by the CPFF is declining rapidly.

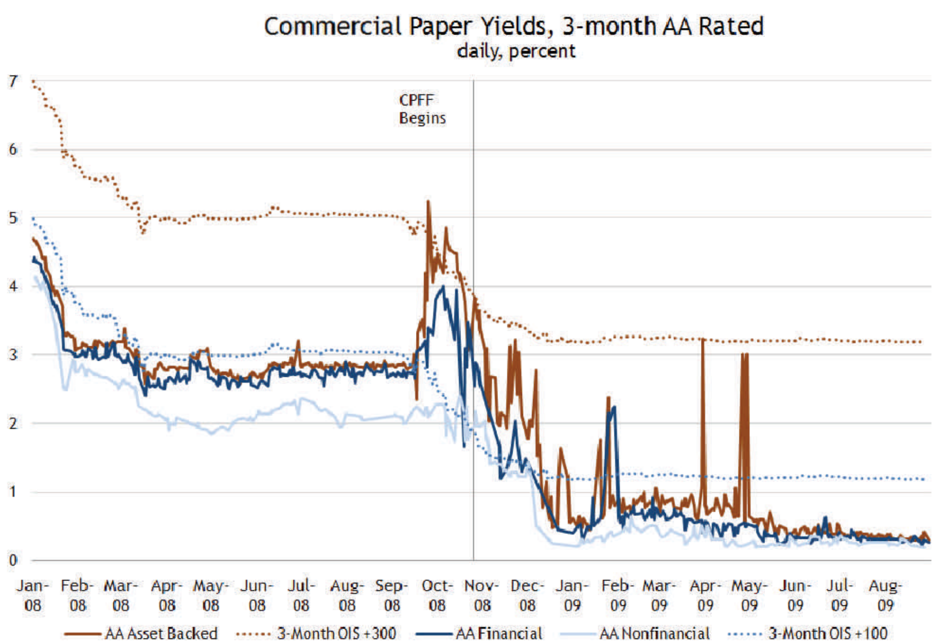


Source: FRB

- Total commercial paper outstanding was $1.19 trillion for the week ended August 26 and is down 32% year over year.
- CPFF holdings are down from their peak of $351 billion for the week January 15-21 to $49 billion for the week ended August 26.

Use of the Fed's CPFF has declined as commercial paper yields have fallen significantly and stayed below comparative rates paid to the CPFF.

The CPFF is set to expire February 1, 2010.



Source: FRB

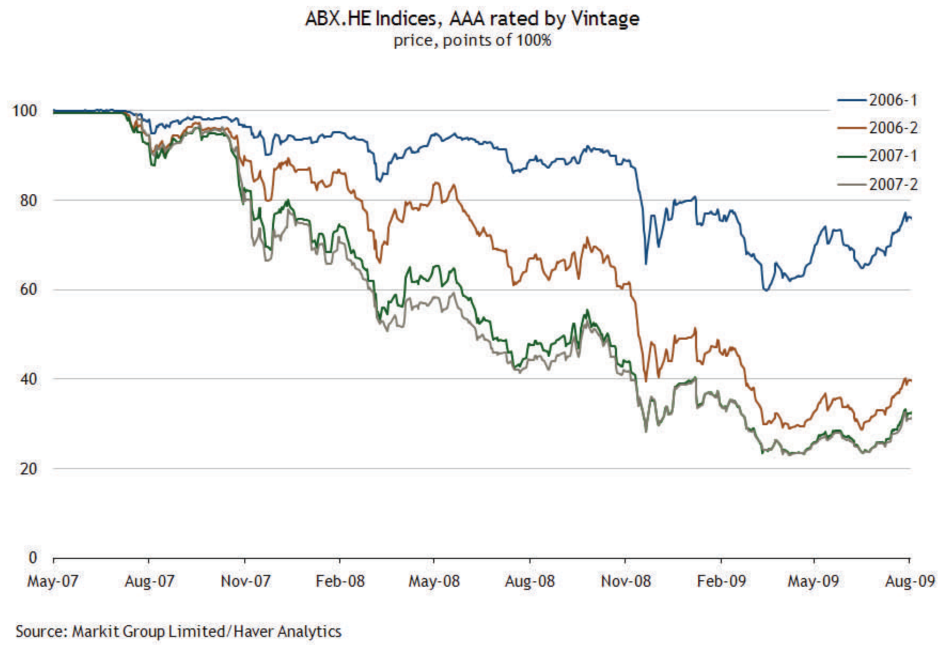
- On September 1, AA Asset-Backed paper traded at 0.28%, AA Financial traded at 0.24% and AA Nonfinancial traded at 0.15%.
- The CPFF rate for unsecured commercial paper was 1.178% (three-month OIS+100 basis points) on August 28 and the CPFF rate for ABCP was 3.178% (three-month OIS+300 basis points).

ABX and CMBX

Summary

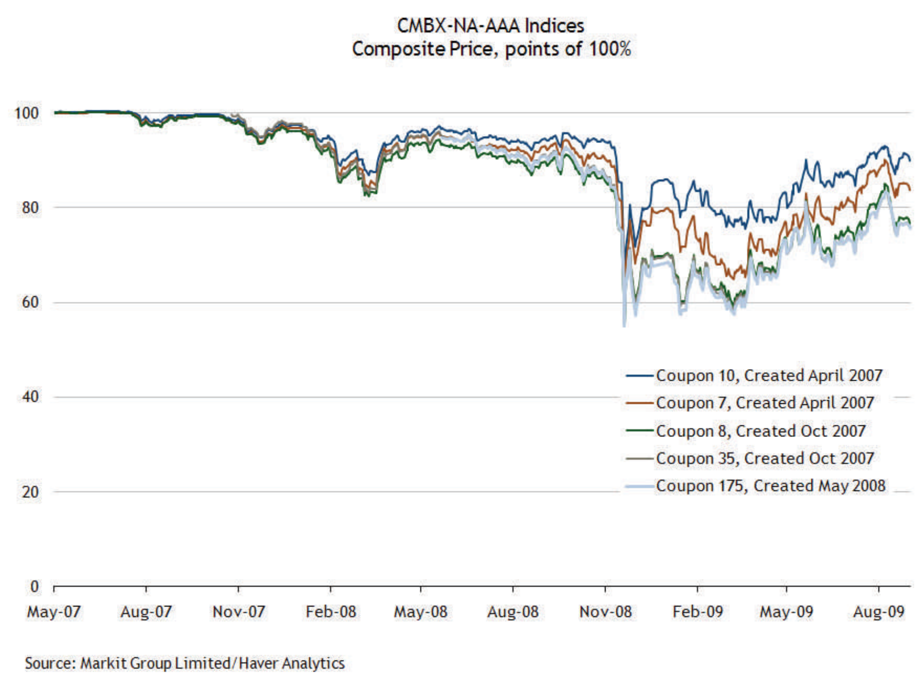
The AAA ABX.HE index, based on credit default swaps of AAA tranches of subprime MBS, has fallen dramatically since the financial crisis began, especially for indices created in July 2006 and January 2007.

The AAA index for each vintage has trended upward in recent months, indicating a decrease in the cost to protect the underlying debt from default and consistent with improvement in liquidity concerns and increases in risk appetite seen in financial markets more generally.



- On September 1, the AAA.HE index traded at 73 for the 2006-1 vintage and at 36, 28, and 27 for the 2006-2, 2007-1, and 2007-2 vintages, respectively.

The CMBX-NA-AAA index has trended upward since November 2008 and, like the ABX, indicates a decrease in the cost to protect the associated commercial mortgage debt from default.

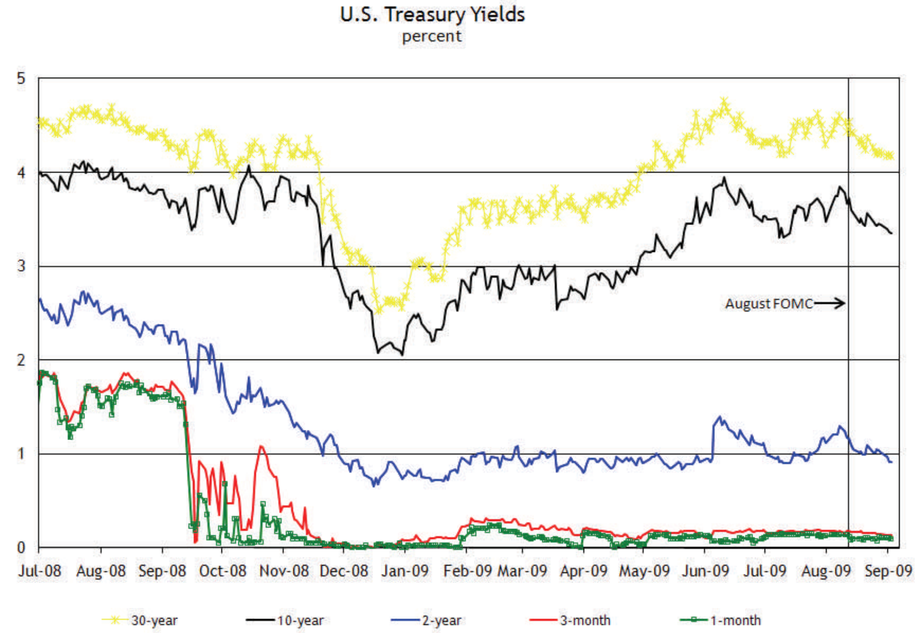


- On September 1, the CMBX-NA-AAA index traded at 90 for the coupon 10 index created in April 2007 and 84, 77, 76, and 76, respectively, for the coupon 7 April 2007 Index, coupon 8 October 2007 index, coupon 35 October 2007 index, and coupon 175 May 2008 Index.

Broad Financial Market Indicators

Summary

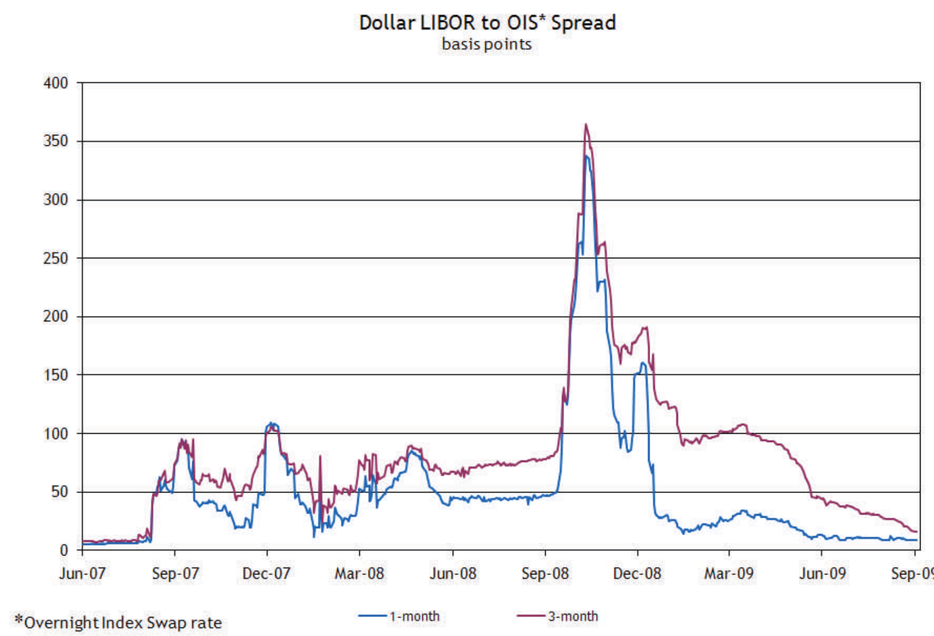
Longer-dated Treasury yields have moved lower since the August FOMC meeting.



Source: Bloomberg

- Since the conclusion of the August FOMC meeting, between August 12 and September 2, longer -dated Treasury yields have fallen: The 30-year bond down 37 basis points (bps) to 4.17%, the 10-year note fell 37 bps to 3.35%, and the two-year note was 25 bps lower, to 0.91%.
- And T-bills were little changed: The three-month yield is down 4 bps to 0.14%, and the one-month was essentially unchanged at 0.10%.

LIBOR-to-OIS spreads continue to improve, setting record lows for interbank funding spreads.



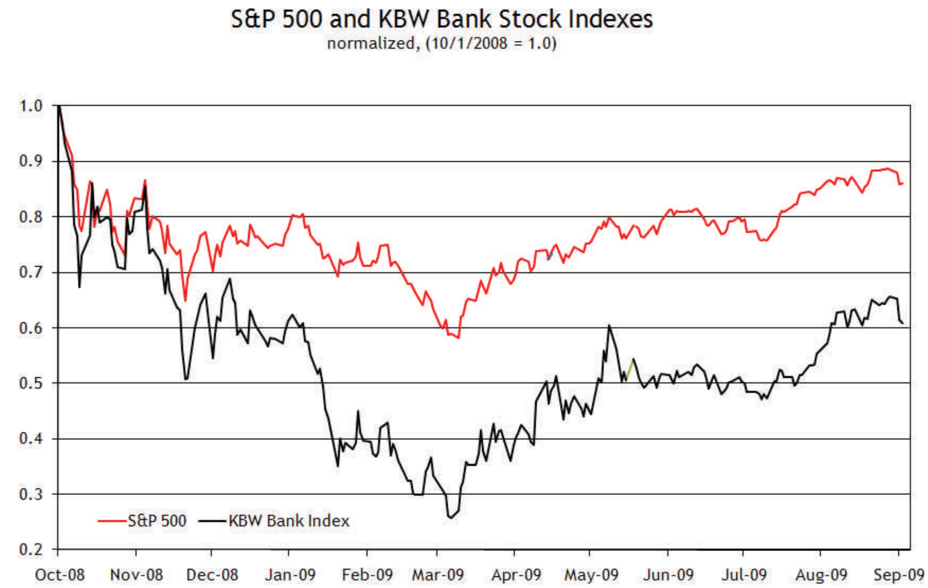
Source: Bloomberg and British Bankers' Association

- Interbank funding spreads remain at or near the precrisis levels: As of September 2, the one-month Dollar LIBOR to OIS spread was 8.9 bps, and the three-month was 16 bps.

Broad Financial Market Indicators

Summary

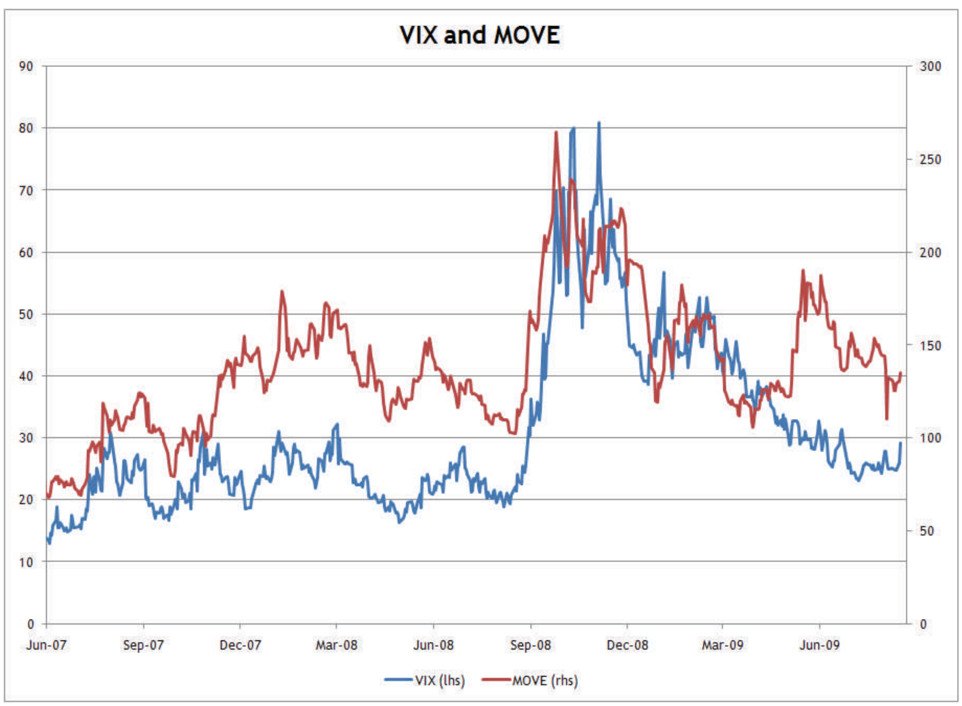
From their recent lows in March, U.S. equities have moved higher, but they fell considerably on September 1, led by declines in banks' stocks.



Source: Standard and Poor's

- As of Sept 2, the S&P 500 has risen 47.7% from its low on March 9. Similarly, from its low on March 6, the KBW Bank Index has risen 124.8%.
- But both indexes fell sharply on Sept 1, with the S&P down 2.2% and the KBW plunging 5.8%.

Volatility indexes have been flat to declining in recent weeks.



Source: Chicago Board of Exchange, Merrill Lynch

- The Chicago Board of Exchange's Volatility Index (VIX), measuring the option-implied volatility of the S&P 500 index, jumped 3.1 points on September 1 to a level of 29.2 on a 2.2% decline in the underlying equity index.
- The Merrill Lynch Option Volatility Expectations (MOVE), a measure of bond market volatility, has also improved: Currently at a level of 135, it has steadily fallen from its recent peak of 190.3 on June 1.