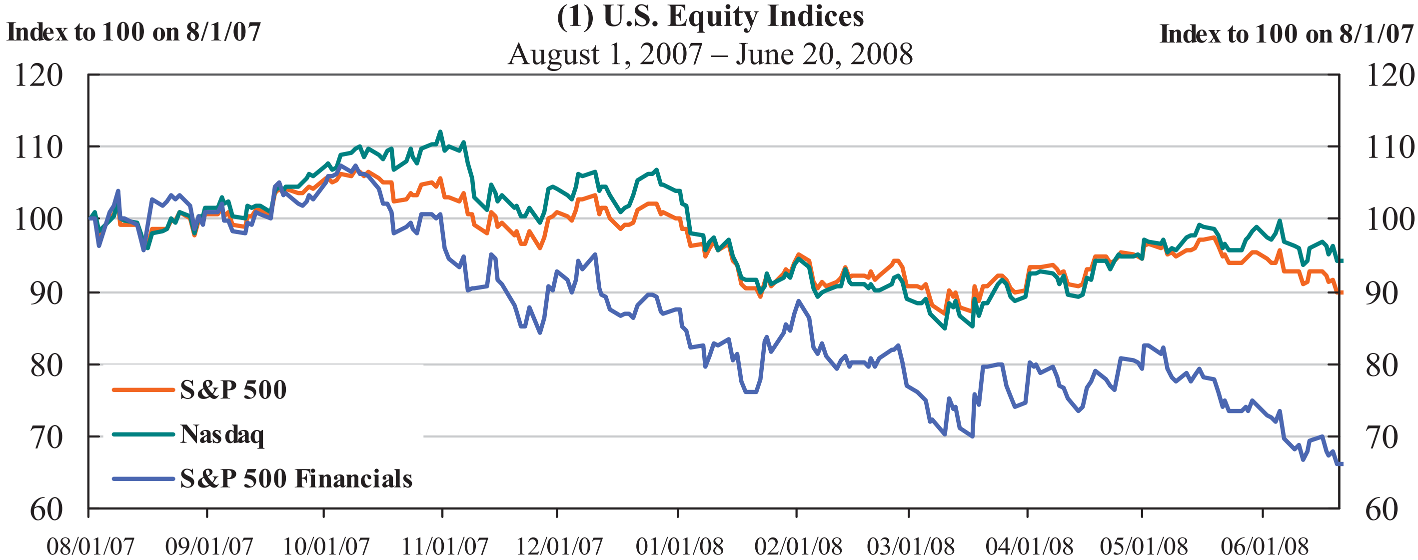
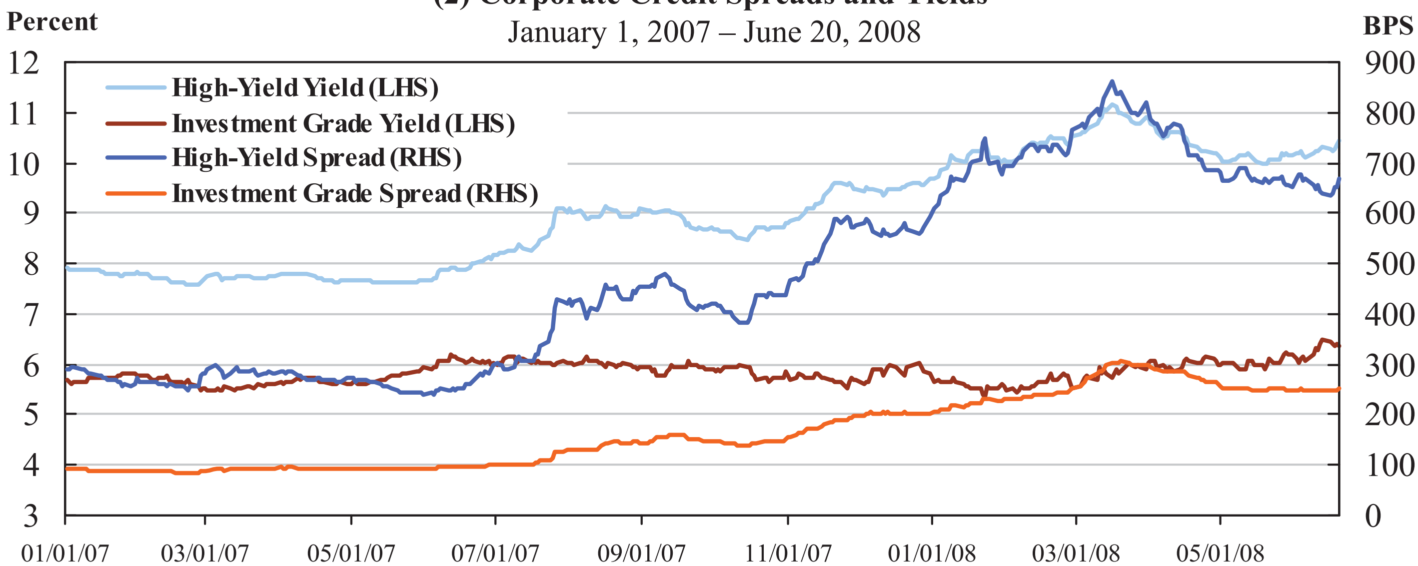
Appendix 1: Materials used by Mr. Dudley

(1) U.S. Equity Indices
August 1, 2007 – June 20, 2008



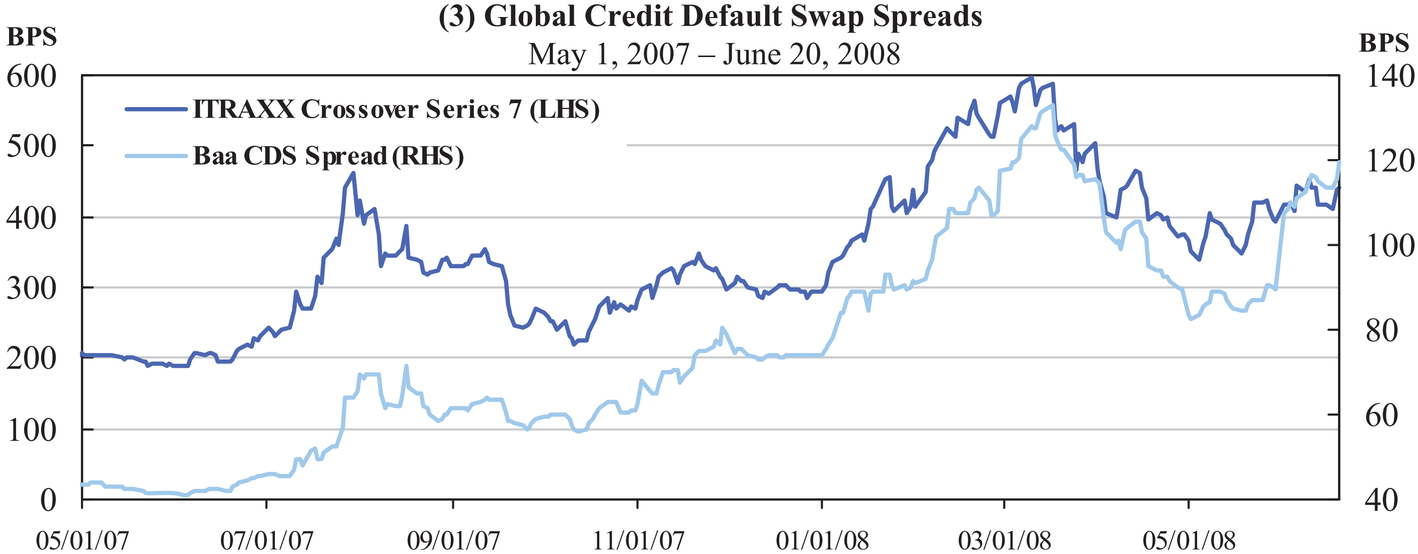
Source: Bloomberg

(2) Corporate Credit Spreads and Yields
January 1, 2007 – June 20, 2008



Source: Bloomberg

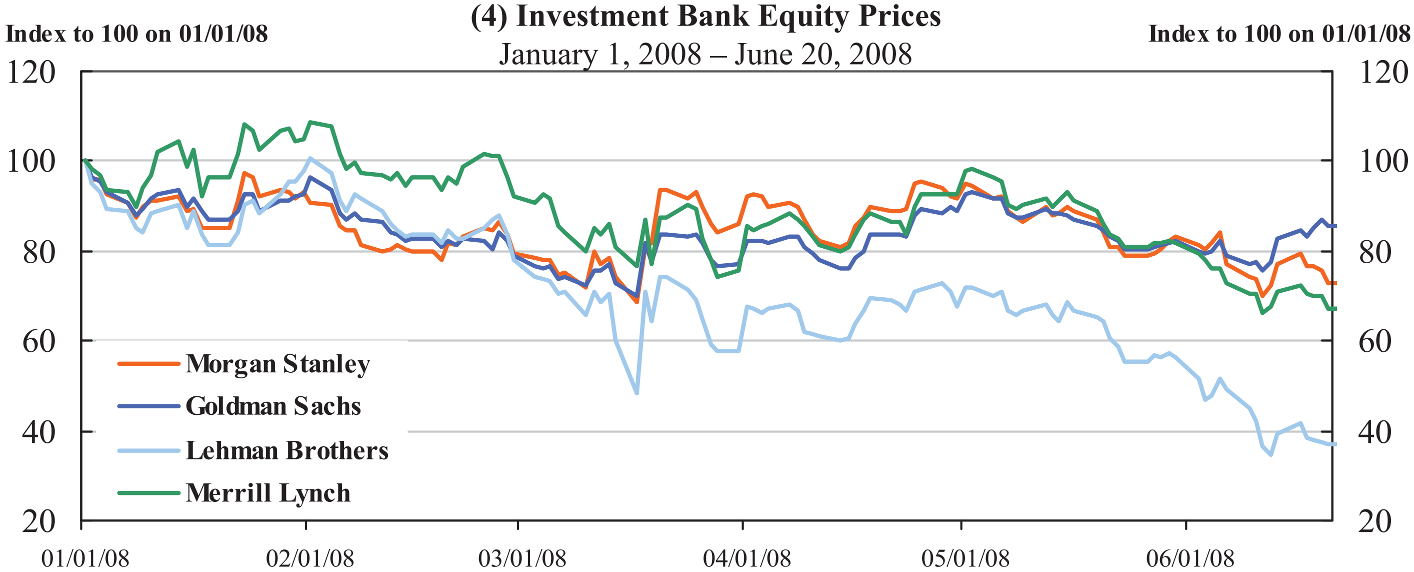
(3) Global Credit Default Swap Spreads
May 1, 2007 – June 20, 2008



Source: Bloomberg, Lehman Brothers

(4) Investment Bank Equity Prices

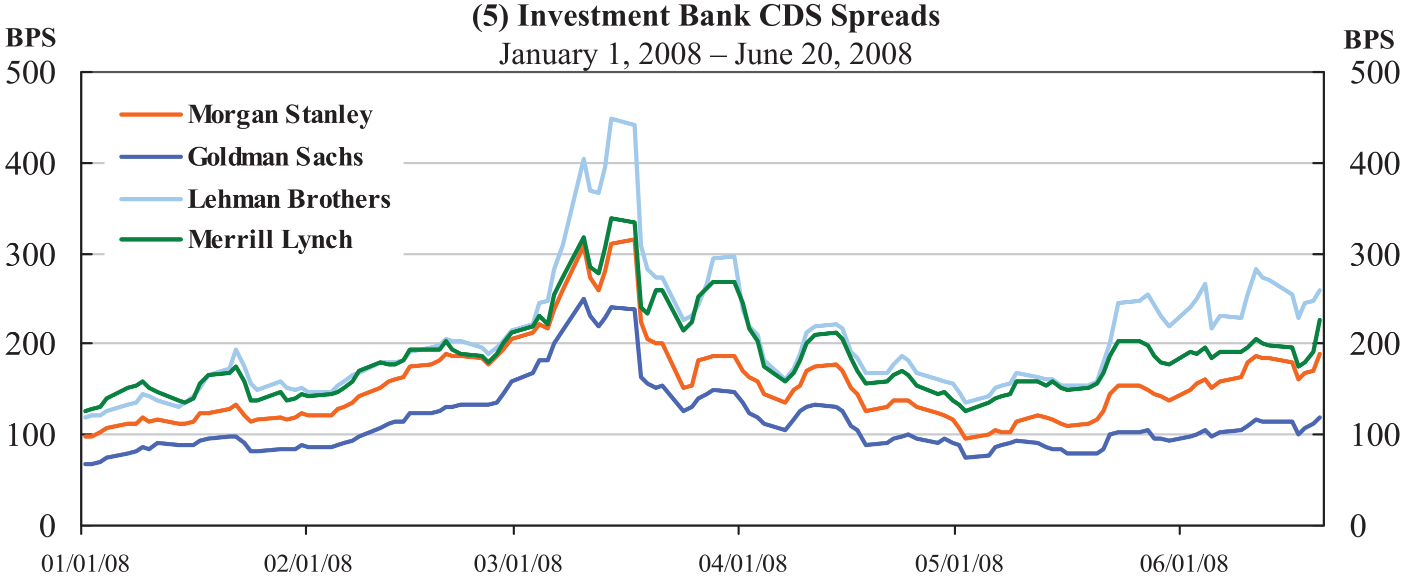
January 1, 2008 – June 20, 2008



Source: Bloomberg

(5) Investment Bank CDS Spreads

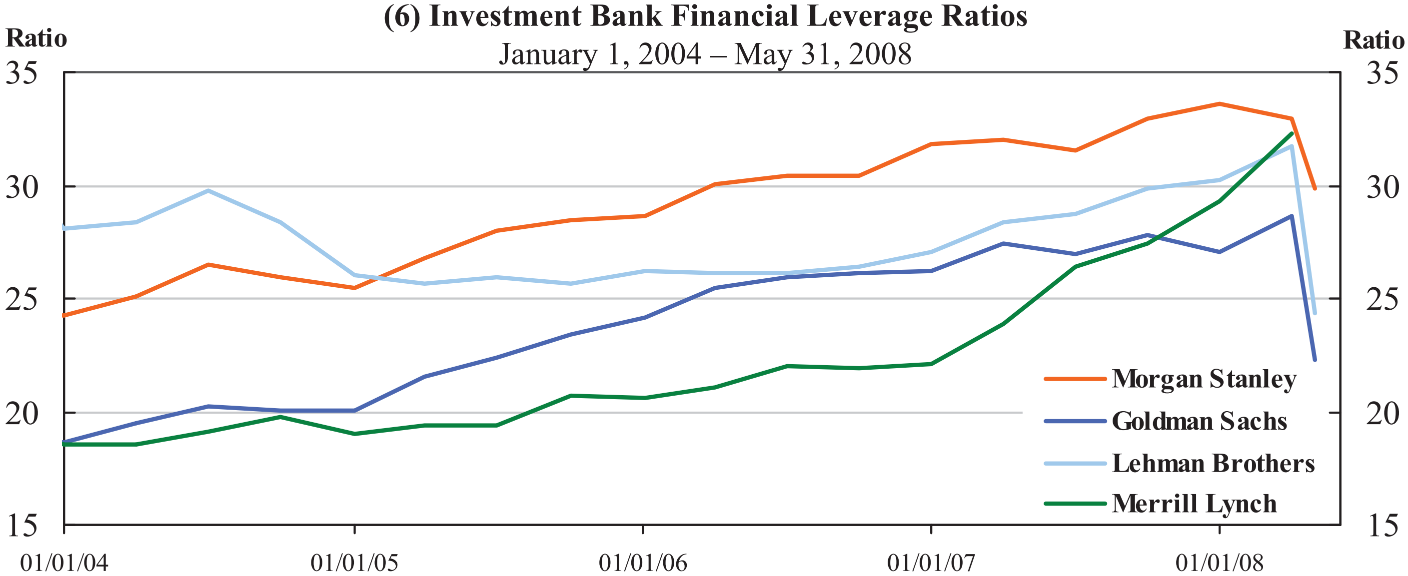
January 1, 2008 – June 20, 2008



Source: Markit

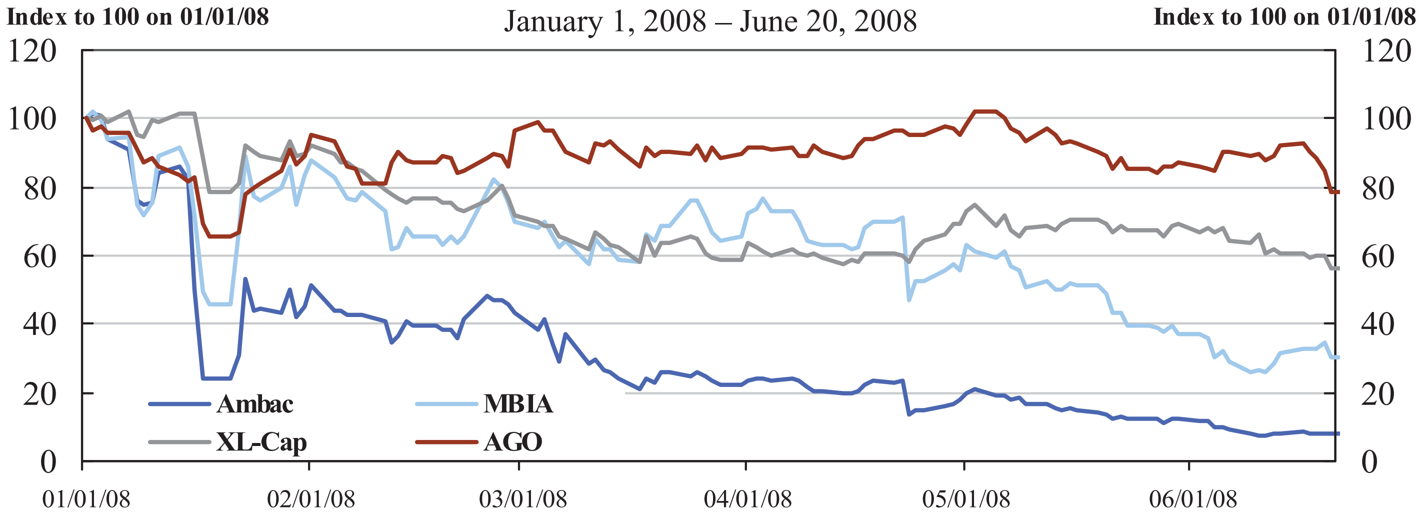
(6) Investment Bank Financial Leverage Ratios

January 1, 2004 – May 31, 2008



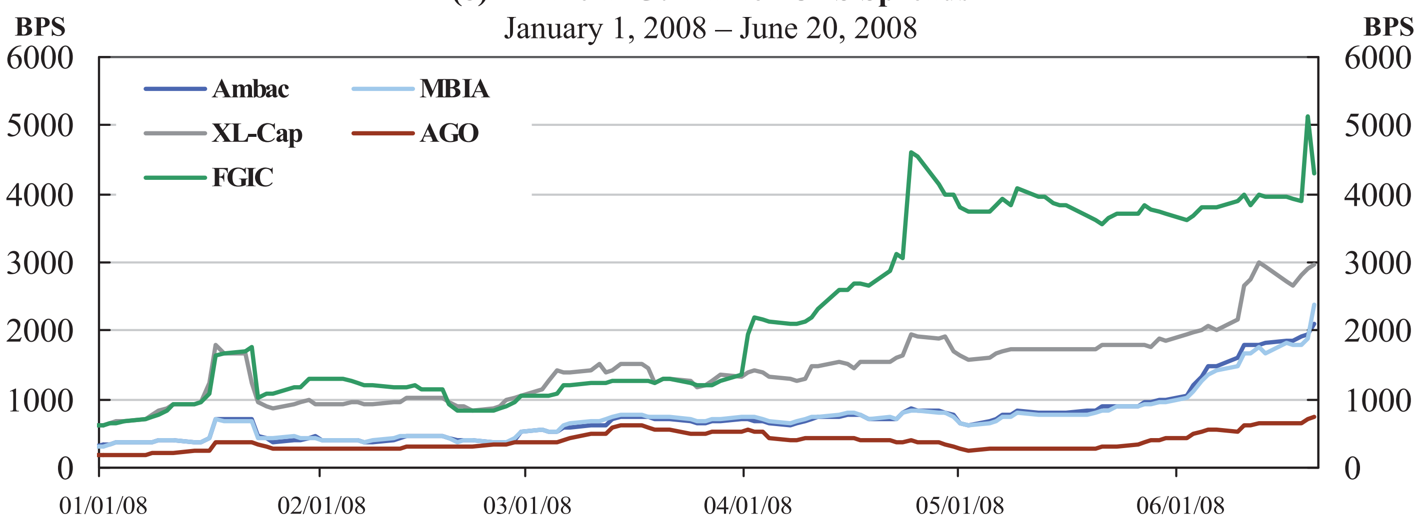
Source: Bloomberg

(7) Financial Guarantor Equity Prices
January 1, 2008 – June 20, 2008



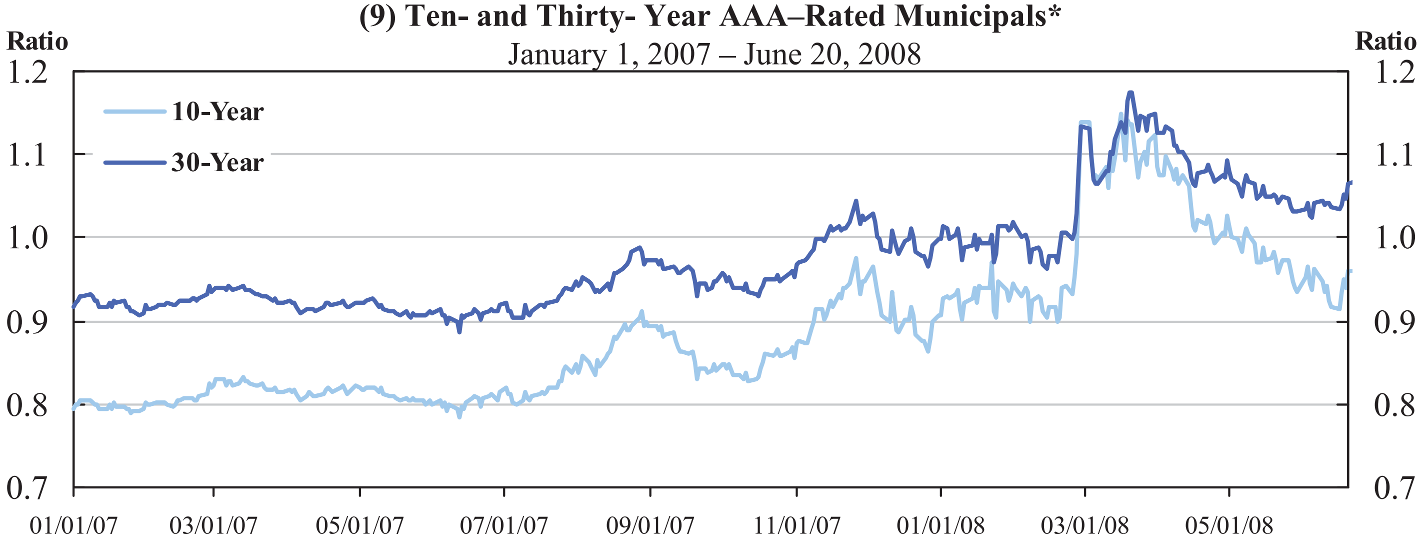
Source: Bloomberg

(8) Financial Guarantor CDS Spreads
January 1, 2008 – June 20, 2008



Source: Markit

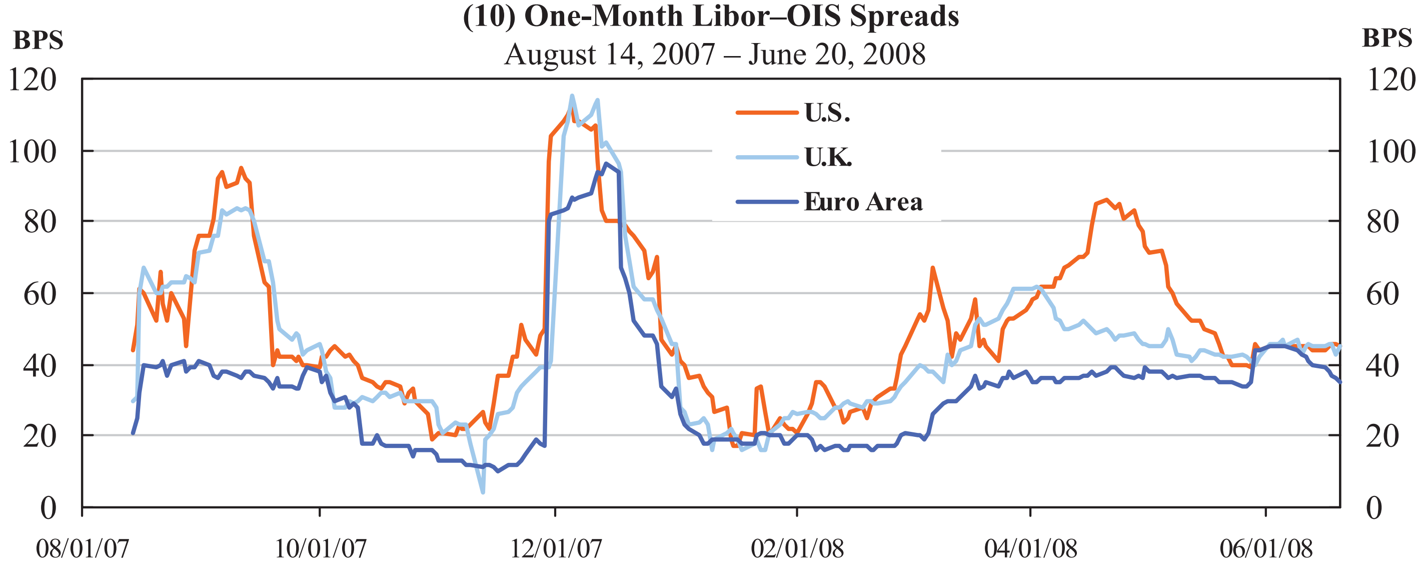
(9) Ten- and Thirty- Year AAA–Rated Municipals*
January 1, 2007 – June 20, 2008



Source: Bloomberg

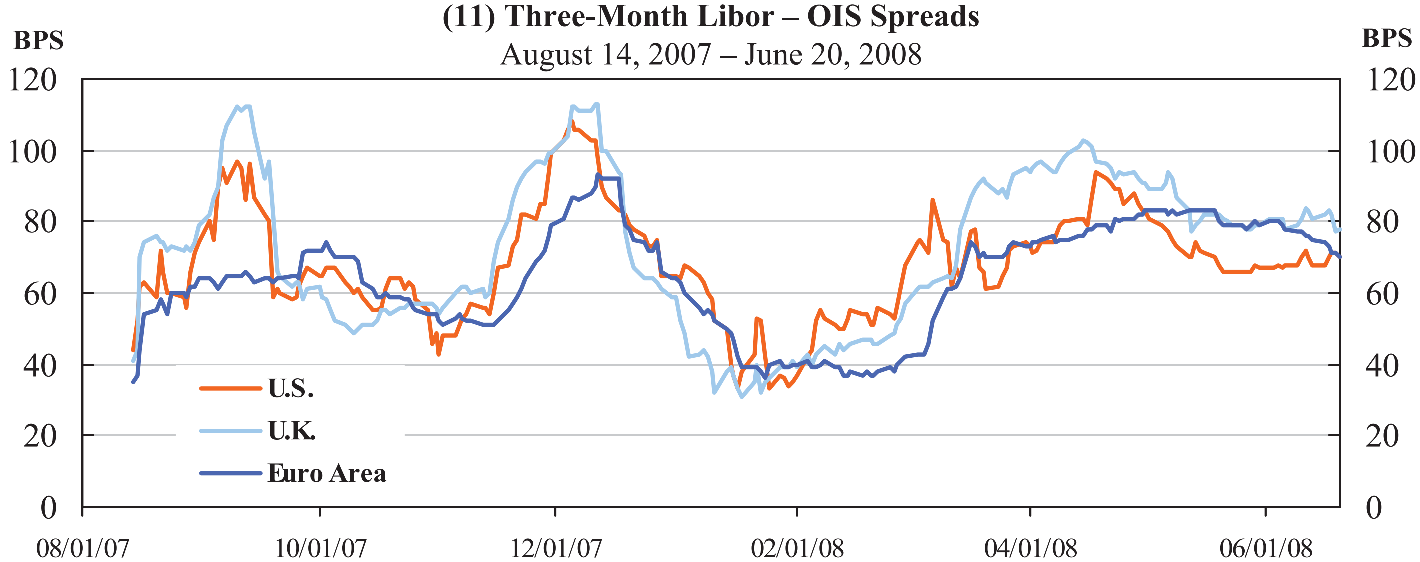
**This chart shows the ratio of municipal debt yields to Treasury yields*

(10) One-Month Libor–OIS Spreads
August 14, 2007 – June 20, 2008



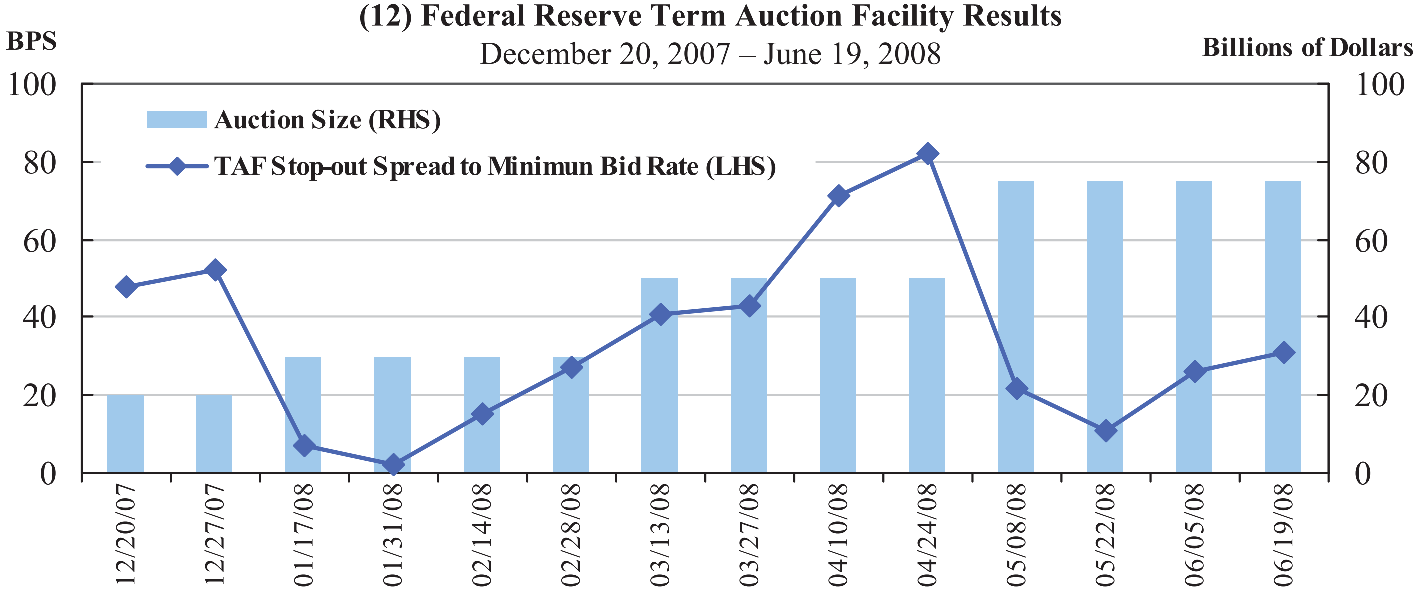
Source: Bloomberg

(11) Three-Month Libor – OIS Spreads
August 14, 2007 – June 20, 2008



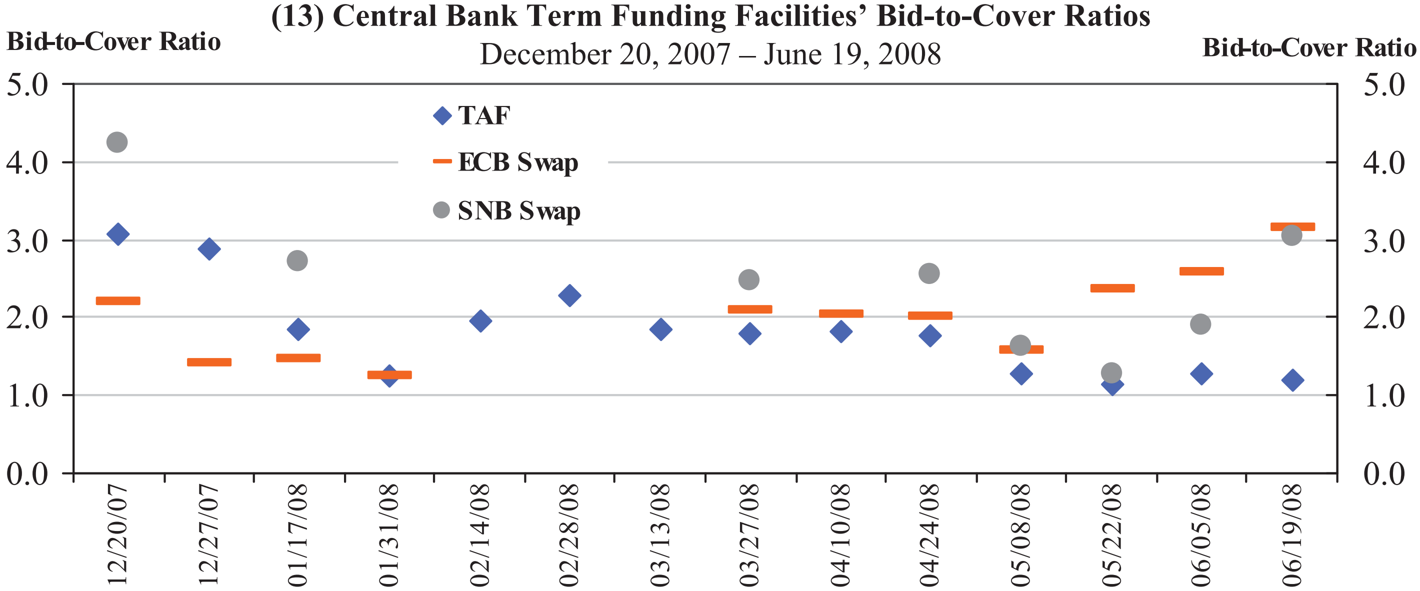
Source: Bloomberg

(12) Federal Reserve Term Auction Facility Results
December 20, 2007 – June 19, 2008



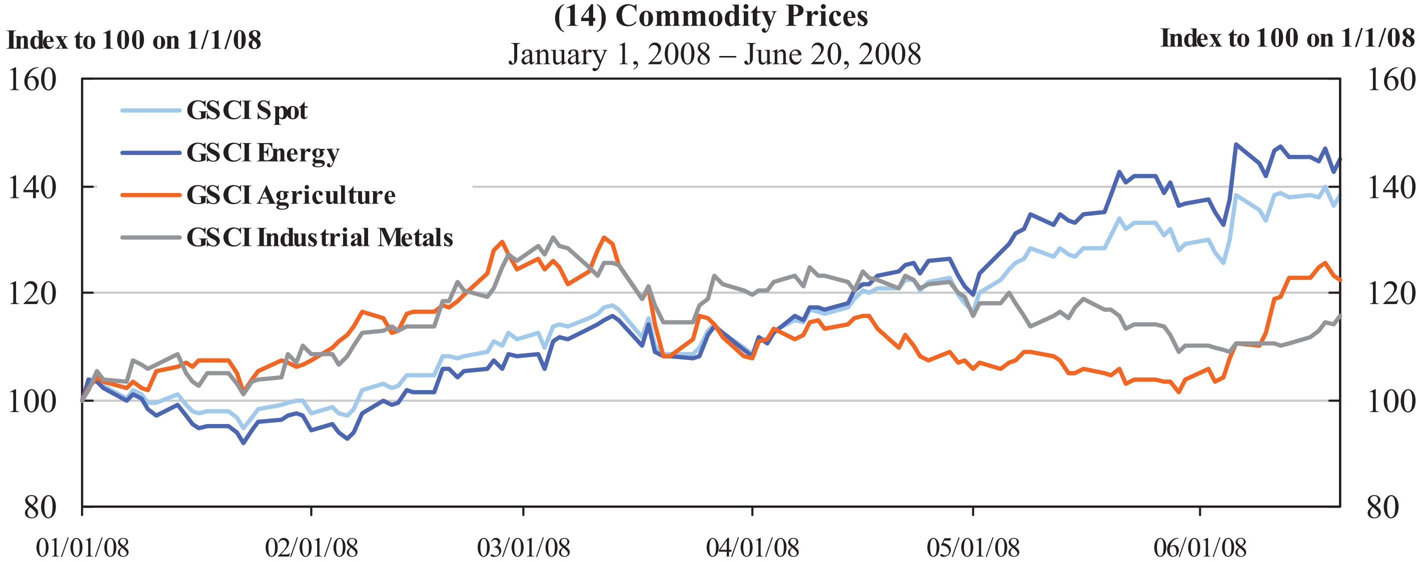
Source: Federal Reserve Board

(13) Central Bank Term Funding Facilities' Bid-to-Cover Ratios
December 20, 2007 – June 19, 2008



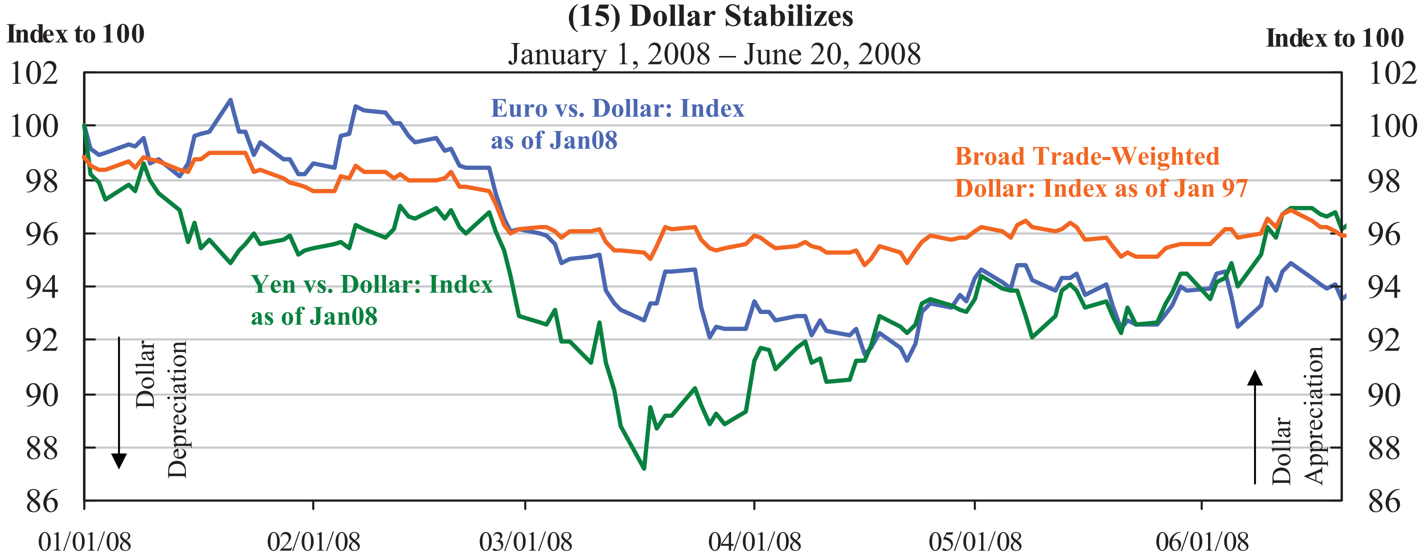
Source: Federal Reserve Board, European Central Bank, Swiss National Bank

(14) Commodity Prices
January 1, 2008 – June 20, 2008



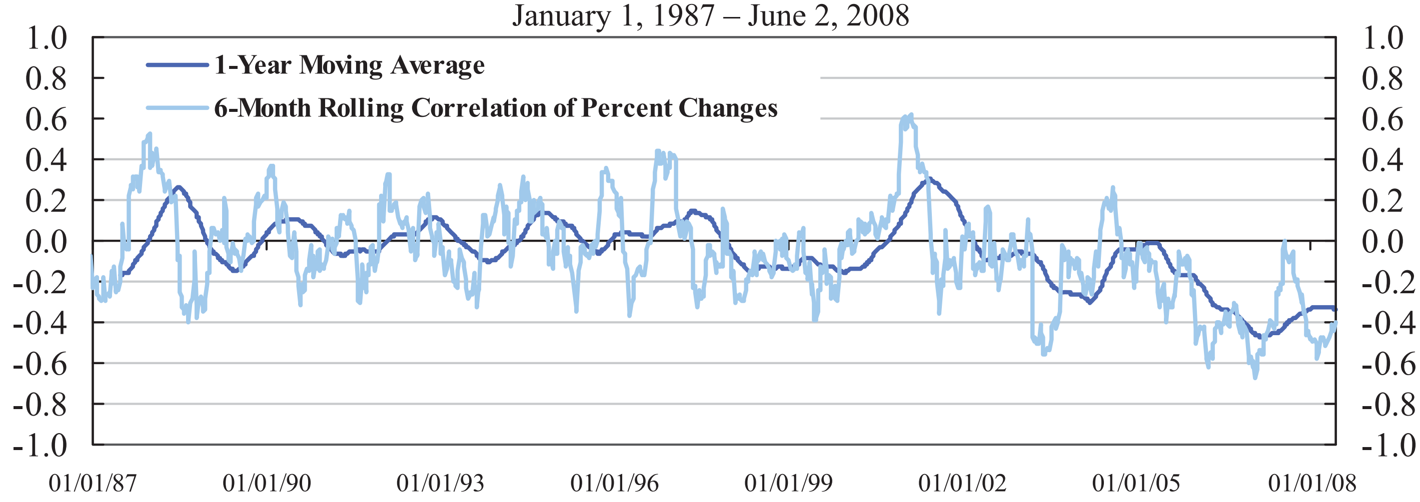
Source: Bloomberg

(15) Dollar Stabilizes
January 1, 2008 – June 20, 2008



Source: Bloomberg and Federal Reserve Board

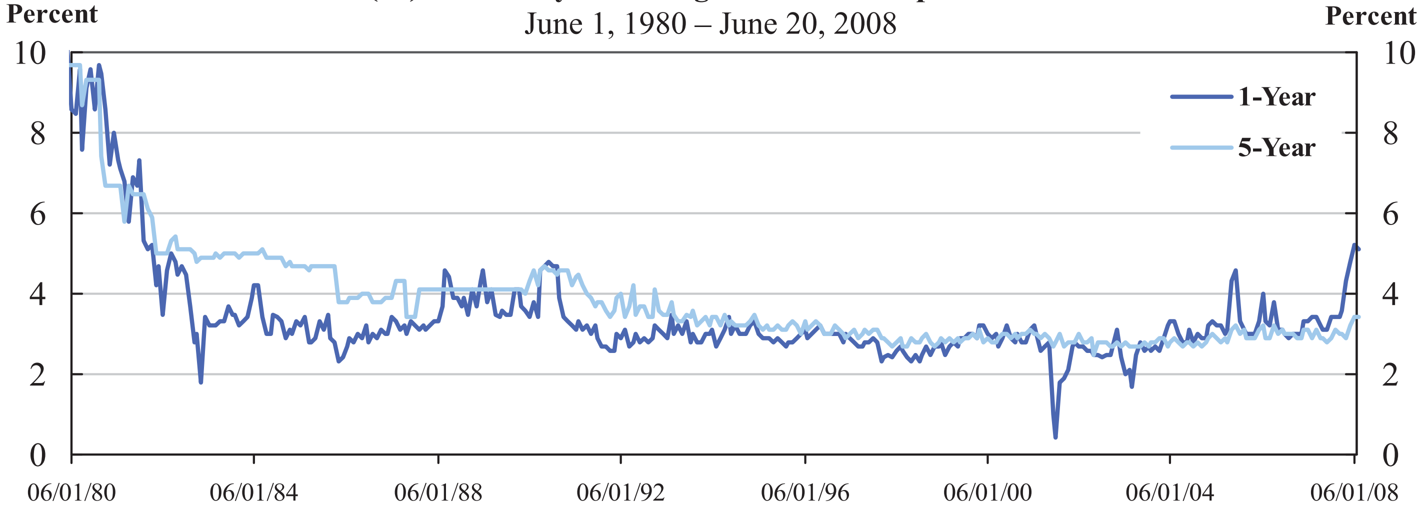
(16) Correlation Between Weekly Changes in Spot WTI Crude Oil and the Trade-Weighted Dollar
January 1, 1987 – June 2, 2008



*** One-year rolling correlation of percentage changes in the weekly average of daily closing prices of the WTI spot crude oil price and the Federal Reserve Board's nominal trade-weighted dollar index (vis-à-vis major currencies).*

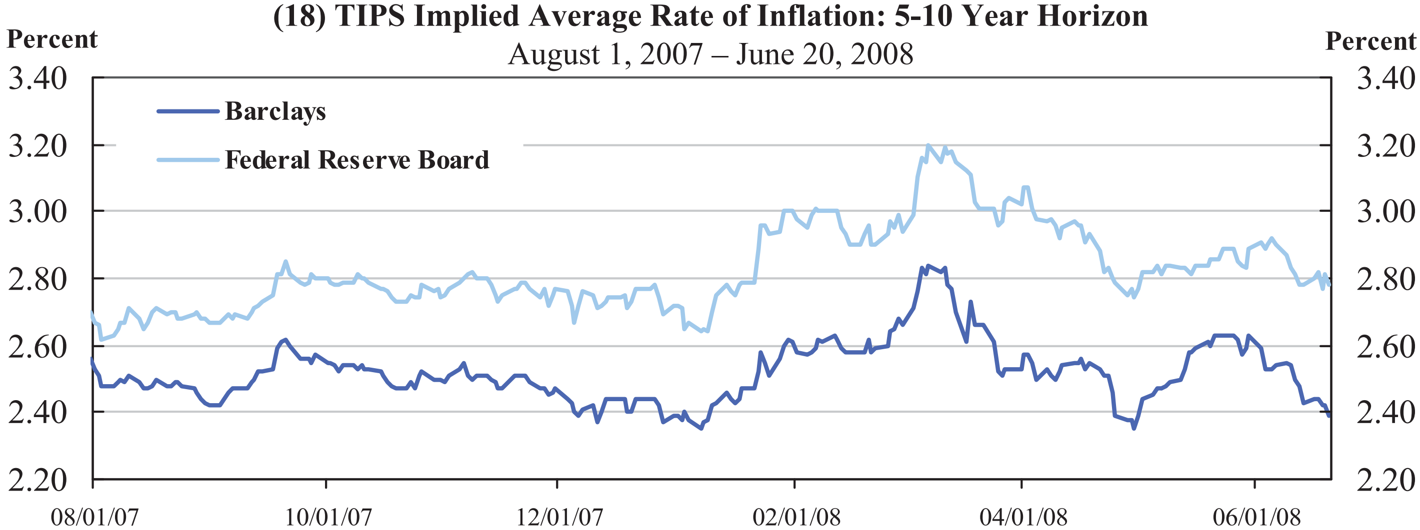
Source: Federal Reserve Board, CEIC

(17) University of Michigan Inflation Expectations
June 1, 1980 – June 20, 2008



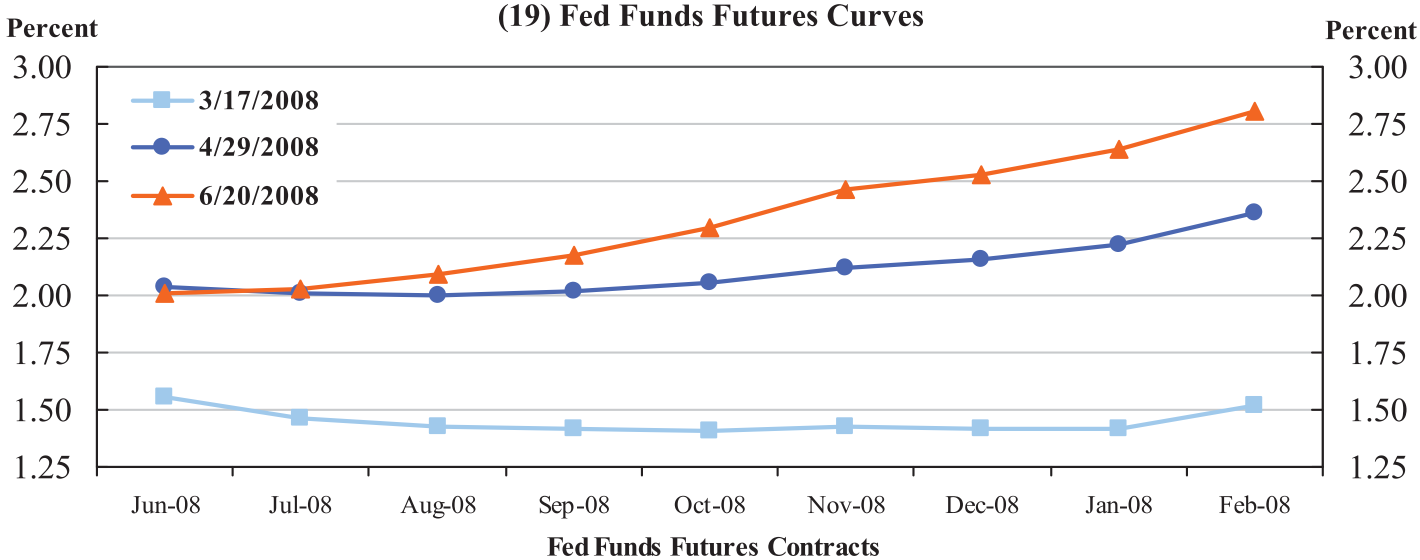
Source: Bloomberg

(18) TIPS Implied Average Rate of Inflation: 5-10 Year Horizon
August 1, 2007 – June 20, 2008



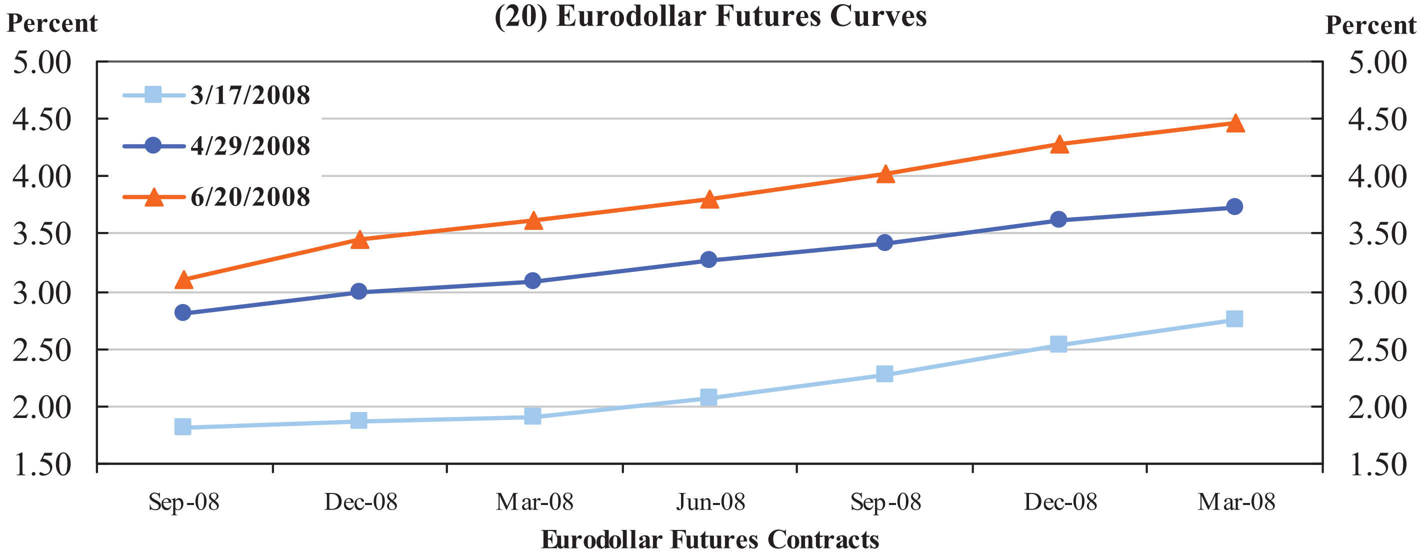
Source: Federal Reserve Board, Barclays Capital

(19) Fed Funds Futures Curves



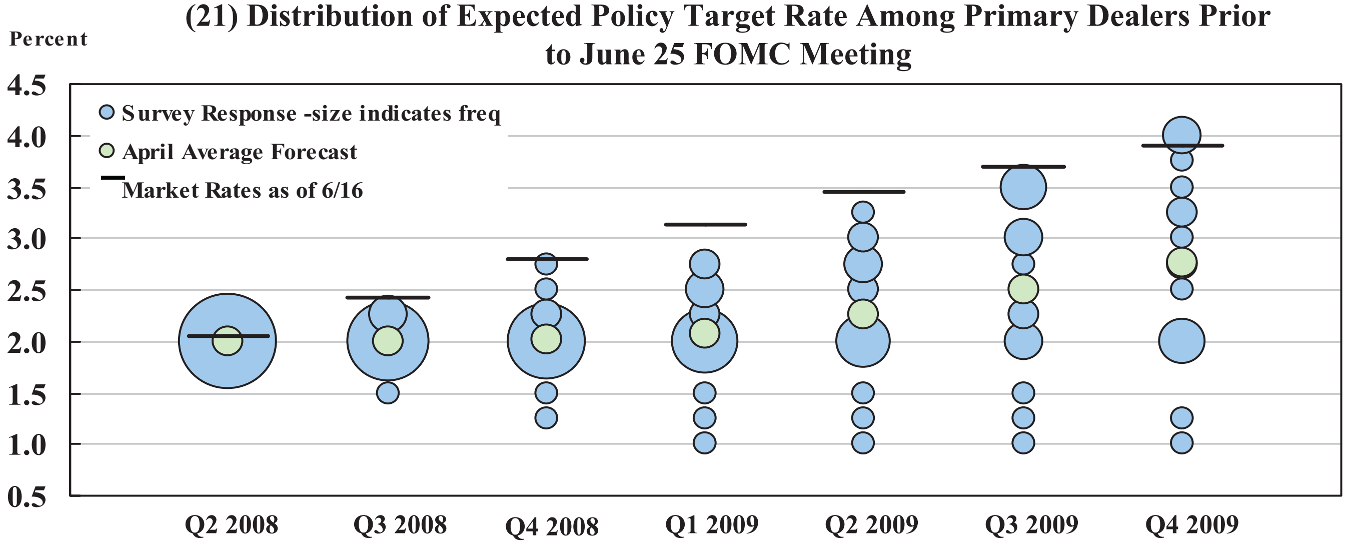
Source: Bloomberg

(20) Eurodollar Futures Curves



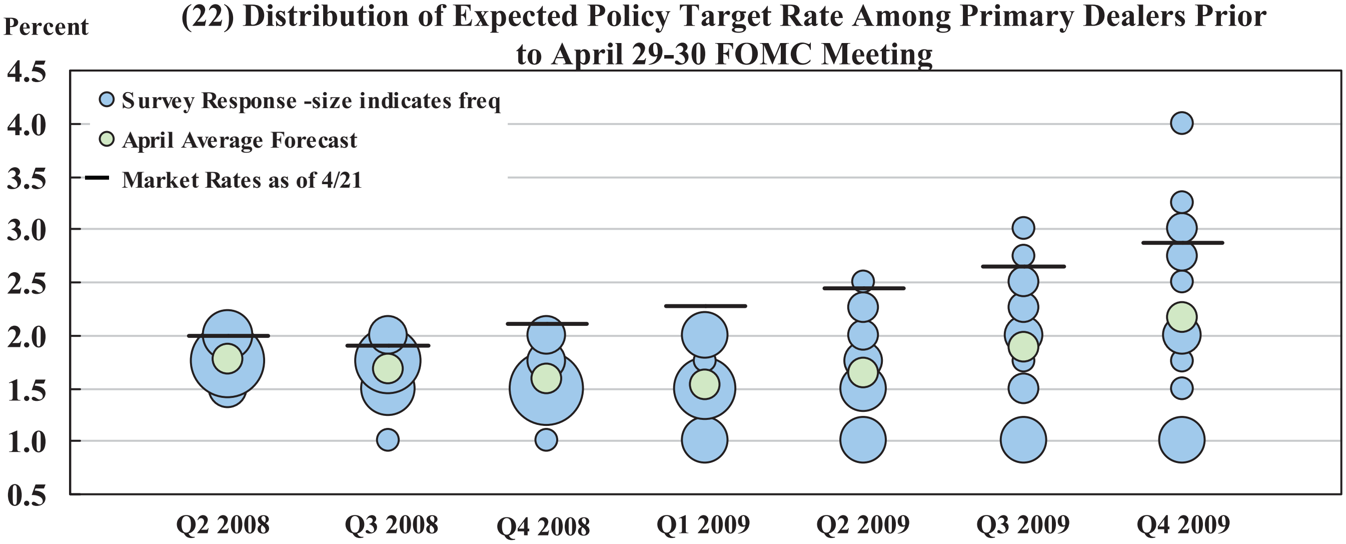
Source: Bloomberg

(21) Distribution of Expected Policy Target Rate Among Primary Dealers Prior to June 25 FOMC Meeting



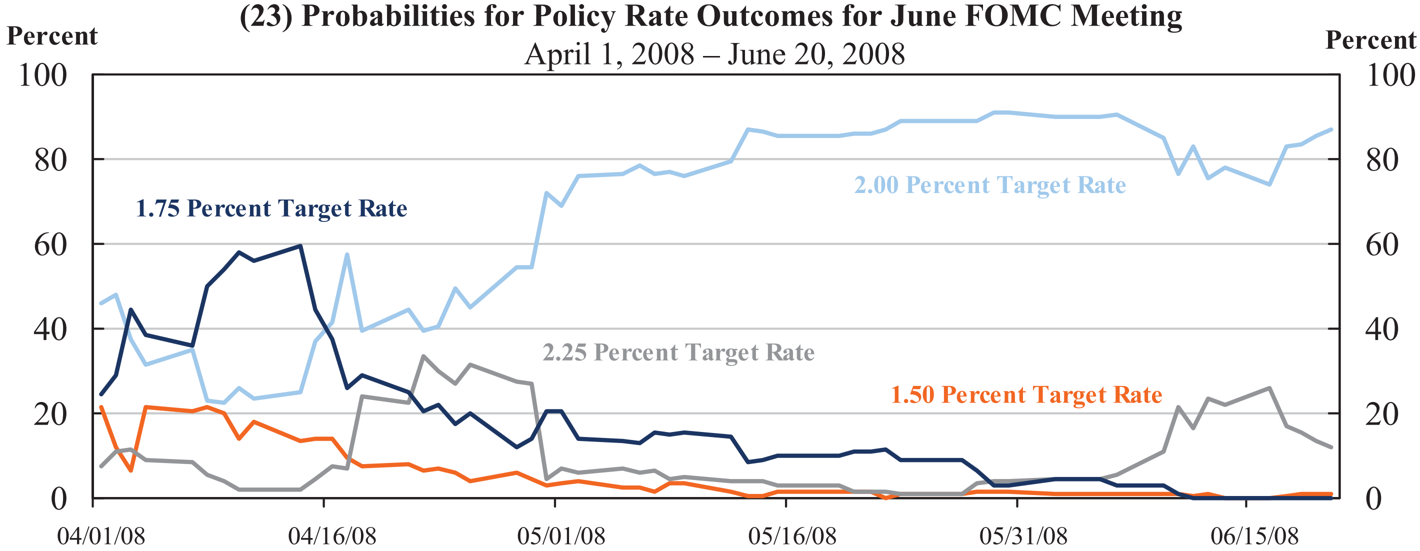
Source: Dealer Policy Survey

(22) Distribution of Expected Policy Target Rate Among Primary Dealers Prior to April 29-30 FOMC Meeting



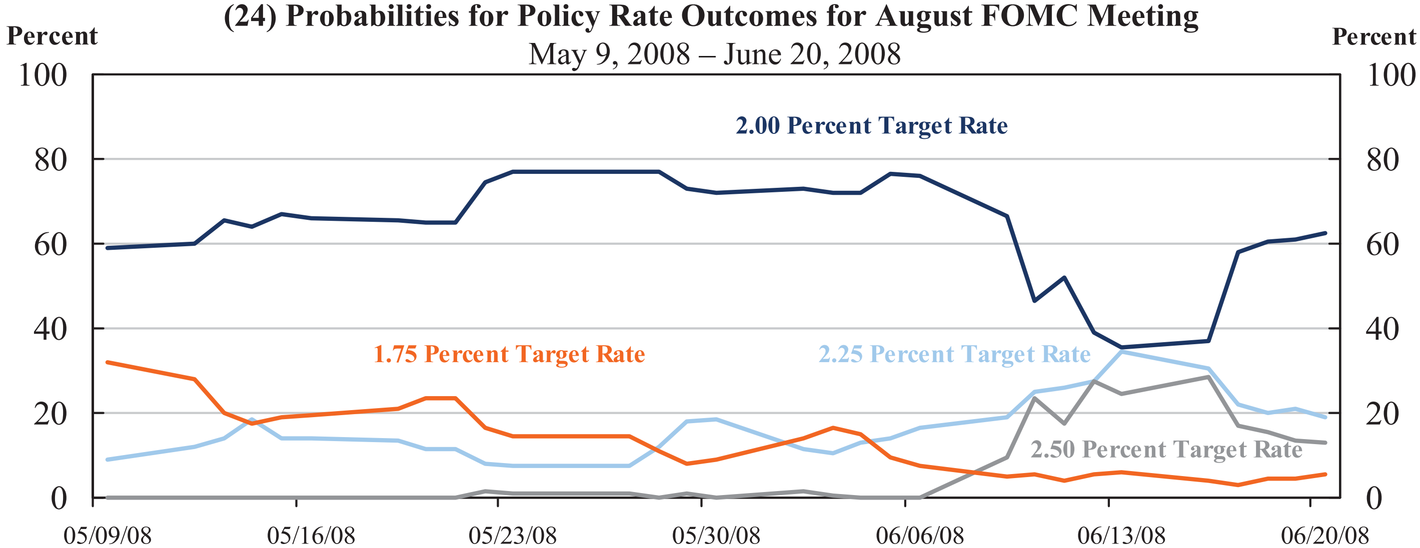
Source: Dealer Policy Survey

(23) Probabilities for Policy Rate Outcomes for June FOMC Meeting
April 1, 2008 – June 20, 2008



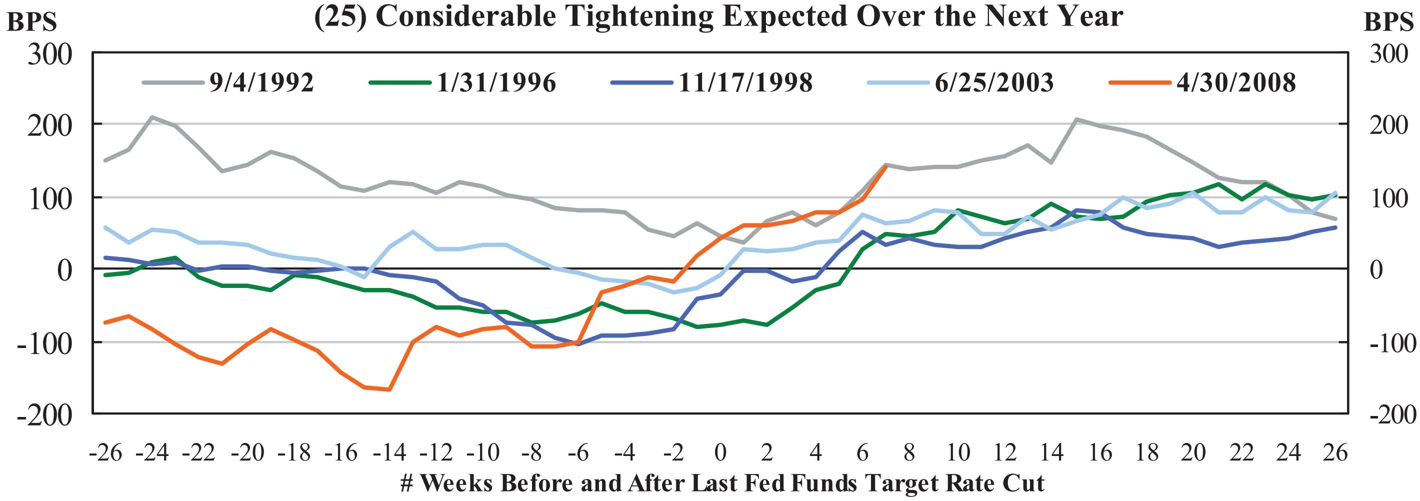
Source: Federal Reserve Bank of Cleveland

(24) Probabilities for Policy Rate Outcomes for August FOMC Meeting
May 9, 2008 – June 20, 2008



Source: Federal Reserve Bank of Cleveland

(25) Considerable Tightening Expected Over the Next Year



**Adjusted based on forward Libor-fed funds basis swap spreads*

Note: Dates represent last interest rate cut of previous cycles and assumes 4/30/08 is the last interest rate cut of the current cycle.

Source: Bloomberg

APPENDIX: Reference Exhibits

(26) Federal Reserve Term Auction Facility Results
December 20, 2007 – June 19, 2008

Auction Settlement	*Term*	*Amount*	*Minimum Bid Rate*	*Stop-out Rate*	*Propositions*	*Bid/Cover*	*Bidders*
12/20/2007	28 Days	$20 b	4.17%	4.65%	$61.6 b	3.08	93
12/27/2007	35 Days	$20 b	4.15%	4.67%	$57.7 b	2.88	73
1/17/2008	28 Days	$30 b	3.88%	3.95%	$55.5 b	1.85	56
1/31/2008	28 Days	$30 b	3.10%	3.12%	$37.5 b	1.25	52
2/14/2008	28 Days	$30 b	2.86%	3.01%	$58.4 b	1.95	66
2/28/2008	28 Days	$30 b	2.81%	3.08%	$68.0 b	2.27	72
3/13/2008	28 Days	$50 b	2.39%	2.80%	$92.6 b	1.85	82
3/27/2008	28 Days	$50 b	2.19%	2.62%	$88.9 b	1.78	88
4/10/2008	28 Days	$50 b	2.11%	2.82%	$91.6 b	1.83	79
4/24/2008	28 Days	$50 b	2.05%	2.87%	$88.9 b	1.77	89
5/8/2008	28 Days	$75 b	2.00%	2.22%	$96.8 b	1.29	71
5/22/2008	28 Days	$ 75 b	1.99%	2.10%	$84.4 b	1.13	75
6/5/2008	28 Days	$ 75 b	2.00%	2.26%	$95.9 b	1.28	73
6/19/2008	28 Days	$ 75 b	2.05%	2.36%	$89.4 b	1.19	76

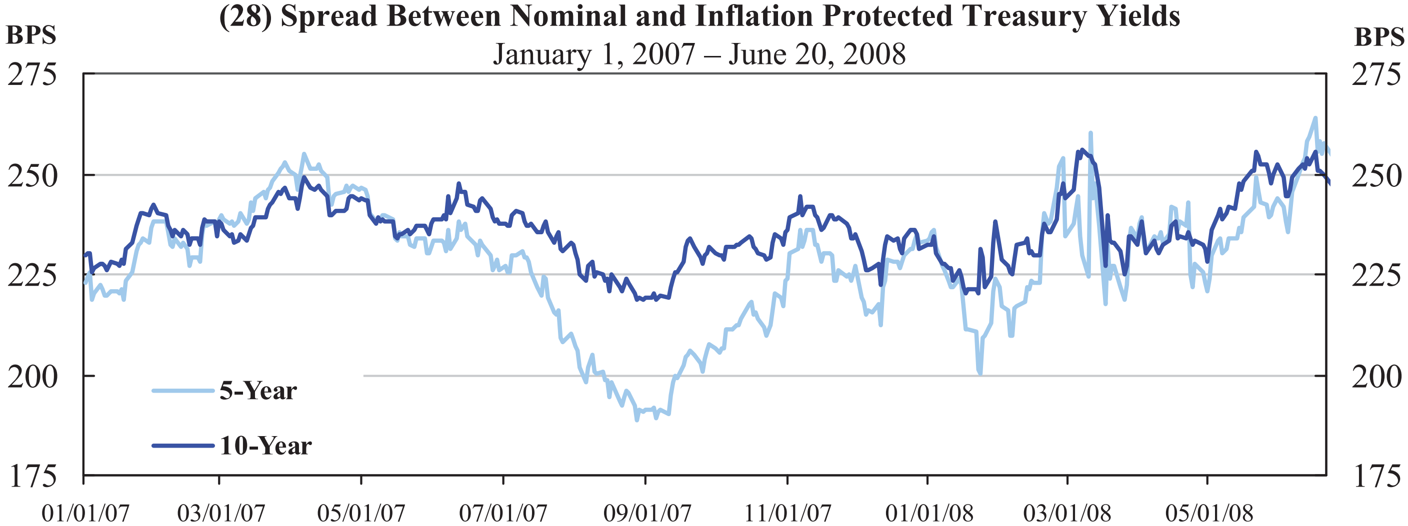
Source: Federal Reserve Board

(27) Term Securities Lending Facility Auction Results

Auction Settlement	Term	Collateral	Amount	Minimum Fee Rate	Stop-out Rate	Propositions	Bid/Cover
3/28/2008	28 Days	Schedule 2	$75 b	0.25%	0.33%	$86.1 b	1.15
4/4/2008	28 Days	Schedule 1	$25 b	0.10%	0.16%	$46.9 b	1.88
4/11/2008	28 Days	Schedule 2	$50 b	0.25%	0.25%	$40.0 b	0.68
4/18/2008	28 Days	Schedule 1	$25 b	0.10%	0.10%	$35.1 b	1.40
4/25/2008	28 Days	Schedule 2	$75 b	0.25%	0.25%	$ 59.5 b	0.79
5/2/2008	28 Days	Schedule 1	$25 b	0.10%	0.10%	$ 24.1 b	0.96
5/9/2008	28 Days	Schedule 2	$50 b	0.25%	0.25%	$28.7 b	0.58
5/16/2008	28 Days	Schedule 1	$25 b	0.10%	0.10%	$7.2 b	0.29
5/23/2008	28 Days	Schedule 2	$75 b	0.25%	0.25%	$46.1 b	0.62
5/30/2008	28 Days	Schedule 1	$25 b	0.10%	0.10%	$16.4 b	0.66
6/6/2008	28 Days	Schedule 2	$50 b	0.25%	0.25%	$26.9 b	0.54
6/13/2008	28 Days	Schedule 1	$25 b	0.10%	0.10%	$27.2 b	1.09
6/20/2008	28 Days	Schedule 2	$75 b	0.25%	0.25%	$36.8 b	0.49

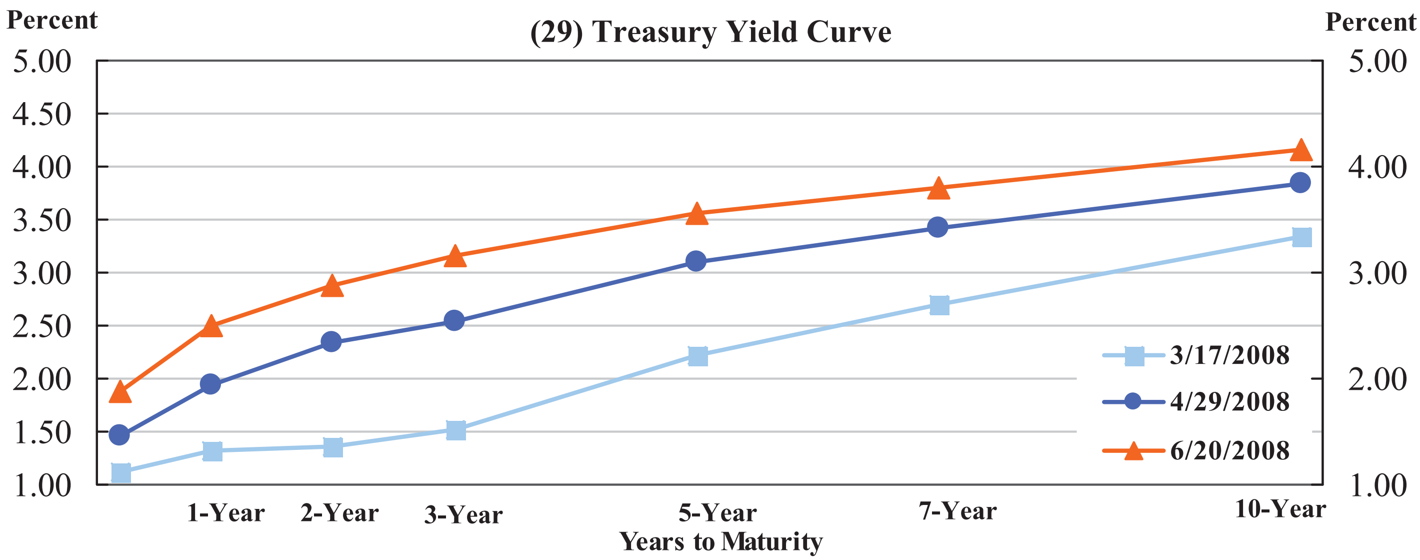
Source: Federal Reserve Bank of New York

(28) Spread Between Nominal and Inflation Protected Treasury Yields
January 1, 2007 – June 20, 2008



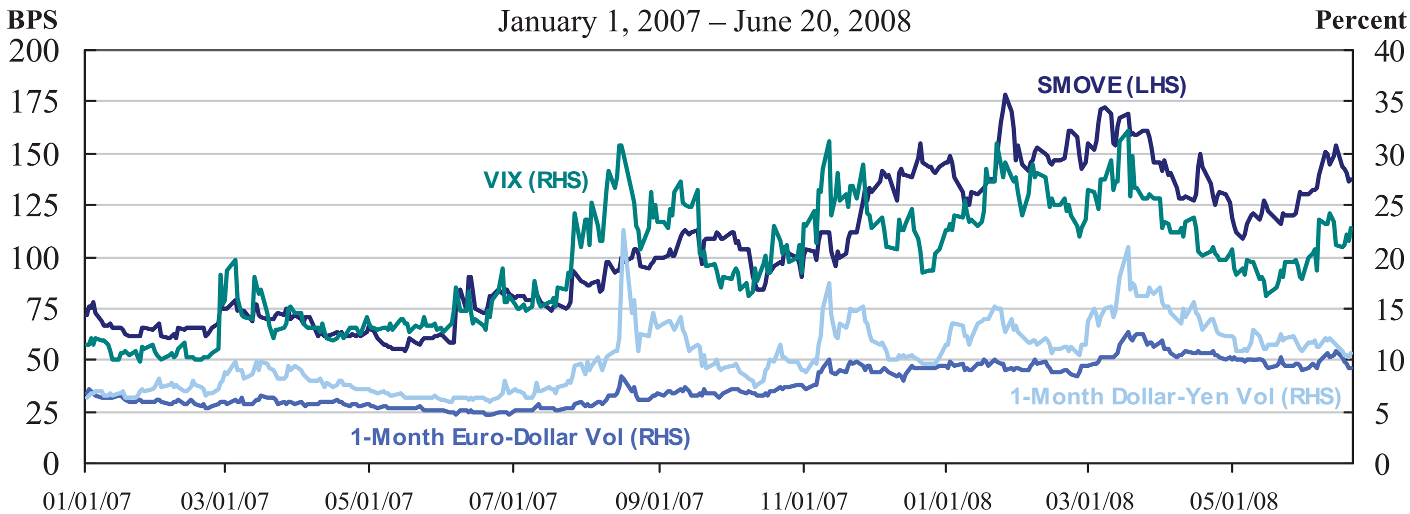
Source: Bloomberg

(29) Treasury Yield Curve



Source: Bloomberg

(30) Implied Volatility Across Markets
January 1, 2007 – June 20, 2008



Source: Bloomberg

Appendix 2: Materials used by Messrs. Sheets, Slifman, and Wascher

CLASS II FOMC - Restricted (FR)

Material for

Staff Presentation on the Economic Outlook

June 24, 2008

Class II FOMC -- Restricted (FR)

Exhibit 1

Outlook for Foreign Growth

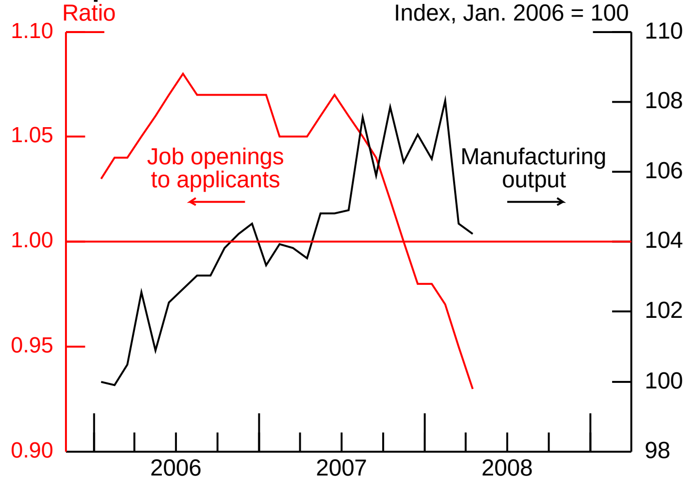
Real GDP Projections*

Percent change, annual rate**

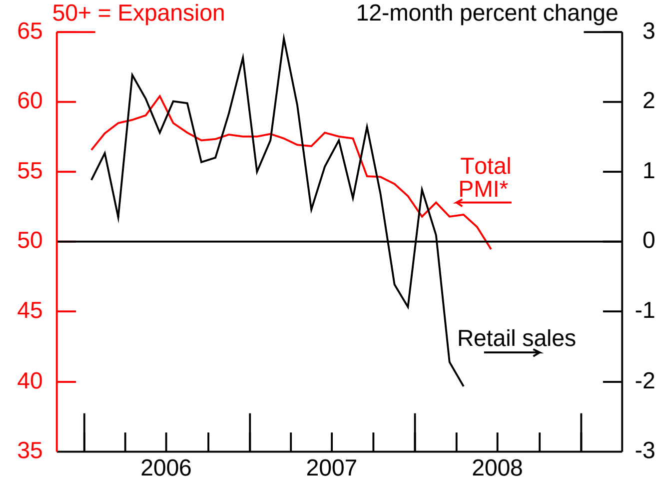
	2007 Q1-Q3	2007 Q4	2008 Q1	2008 Q2[p]	2008 H2[p]	2009[p]
1. Total Foreign	**4.5**	**3.0**	**2.9**	**2.2**	**2.6**	**3.4**
2. Advanced Foreign	**2.9**	**1.4**	**1.5**	**1.0**	**1.2**	**2.1**
3. Canada	3.4	0.8	-0.3	1.0	1.2	2.2
4. Japan	0.9	2.9	4.0	0.6	1.0	1.6
5. Euro Area	2.4	1.3	3.2	0.7	1.1	2.1
6. United Kingdom	3.0	2.5	1.6	1.0	0.7	1.7
7. Emerging Markets	**6.7**	**5.1**	**4.8**	**3.8**	**4.5**	**5.1**
8. Mexico	4.2	3.3	2.1	1.2	2.7	3.6
9. China	11.6	10.6	11.7	8.7	8.8	9.6

* Aggregates weighted by U.S. merchandise export shares.
** Year is Q4/Q4; half year is Q4/Q2; Q1-Q3 is Q3/Q4.

Japan

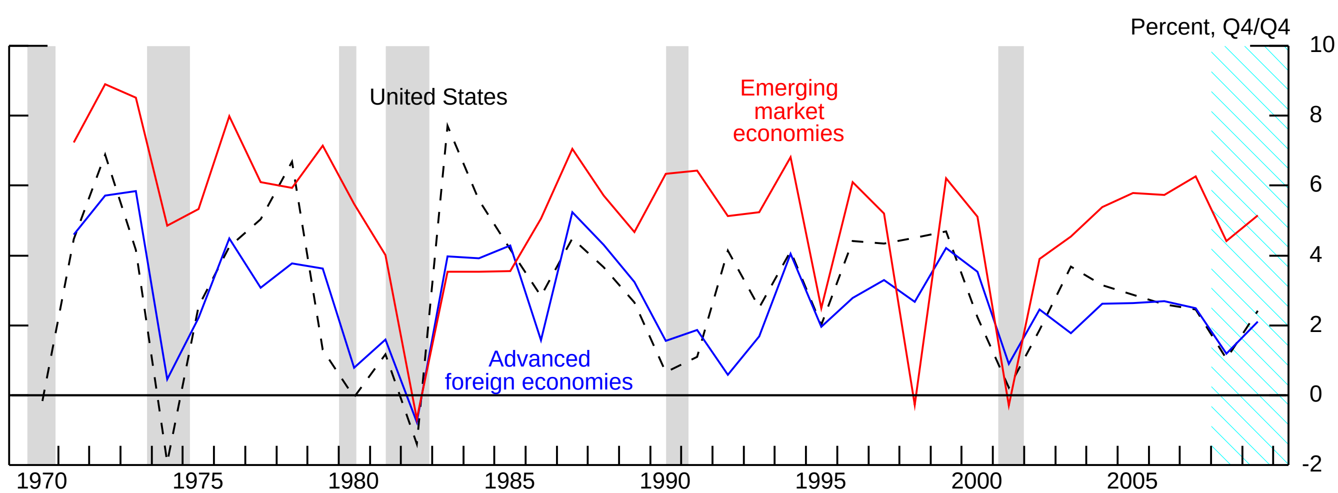


Euro Area



* June figure is flash estimate.

Real GDP Growth*



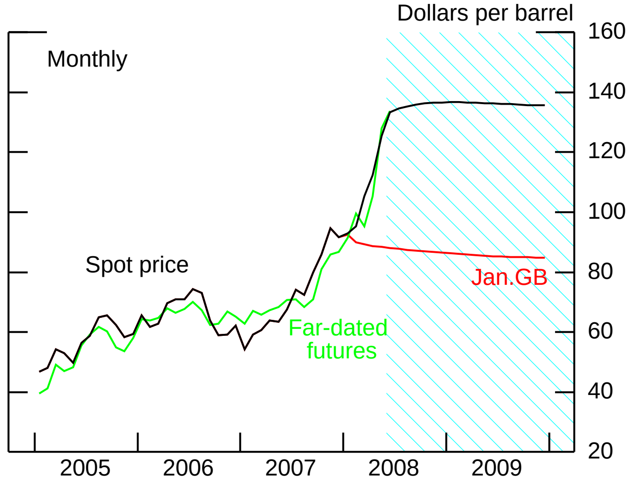
* GDP aggregates weighted by U.S. merchandise export shares. Gray shading represents U.S. recessions. Blue shading represents the forecast period.

Class II FOMC -- Restricted (FR)

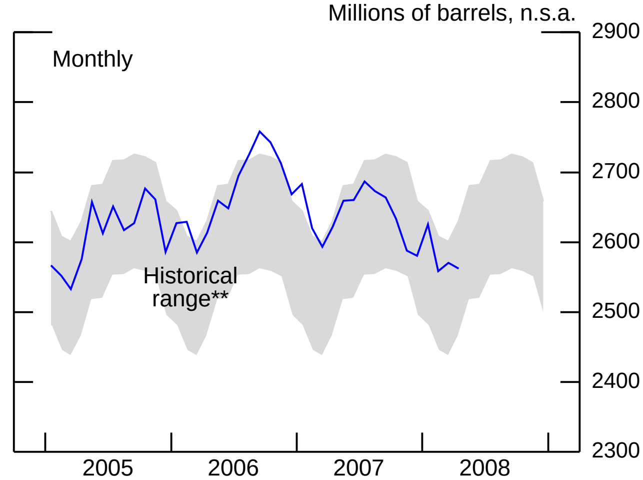
Exhibit 2

Oil Market

West Texas Intermediate



OECD Private Inventories of Oil and Products*



* Both crude oil and petroleum products. Excludes official inventories.
** Five-year average level +/- 1 standard deviation.
Source: International Energy Agency.

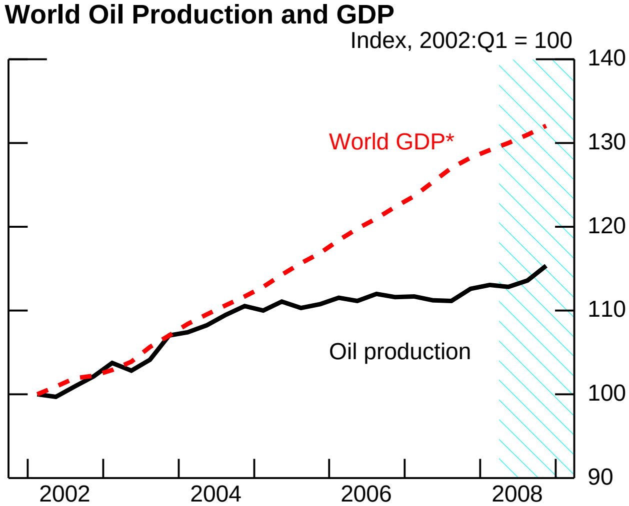
World Oil Balance

Millions of barrels per day

		2005	2006	2007	2008p	% change 05-08
1.	**Consumption**	**83.8**	**84.9**	**86.0**	**86.8**	**3.6**
2.	Advanced Economies	45.4	45.2	44.8	44.4	-2.2
3.	United States	21.2	21.0	21.2	20.6	-2.8
4.	Emerging Markets	38.4	39.7	41.1	42.4	10.4
5.	China	6.7	7.2	7.5	8.0	19.4
6.	Middle East	6.0	6.2	6.5	6.8	13.3
7.	**Production**	**84.6**	**85.4**	**85.5**	**87.0**	**2.8**
8.	OPEC	34.3	34.4	33.9	35.1	2.3
9.	Non-OPEC	50.3	51.0	51.6	51.9	3.2
10.	**Implied Stockbuild and Discrepancy**	**0.8**	**0.5**	**-0.5**	**0.2**	**--**

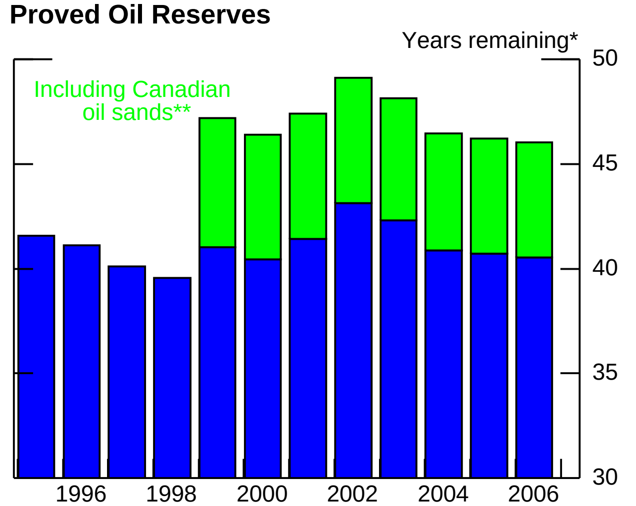
Source: International Energy Agency and staff estimates. Non-OPEC production includes Angola and Ecuador.

World Oil Production and GDP



* Aggregate weighted by world oil consumption shares.

Proved Oil Reserves



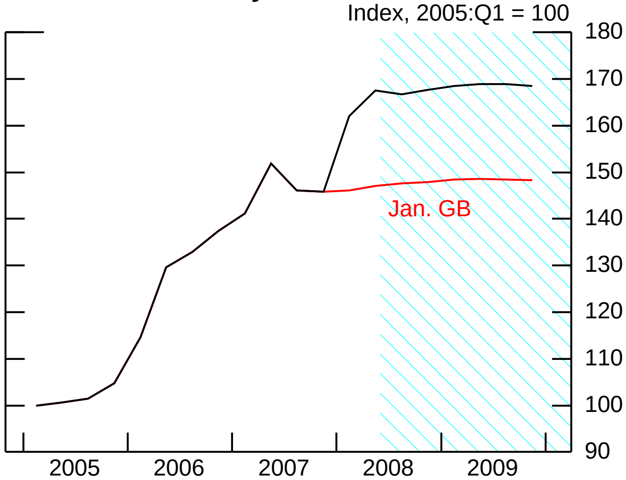
* Proved reserves/current oil production. ** Data unavailable before 1999.
Source: BP Statistical Review of World Energy.

Class II FOMC -- Restricted (FR)

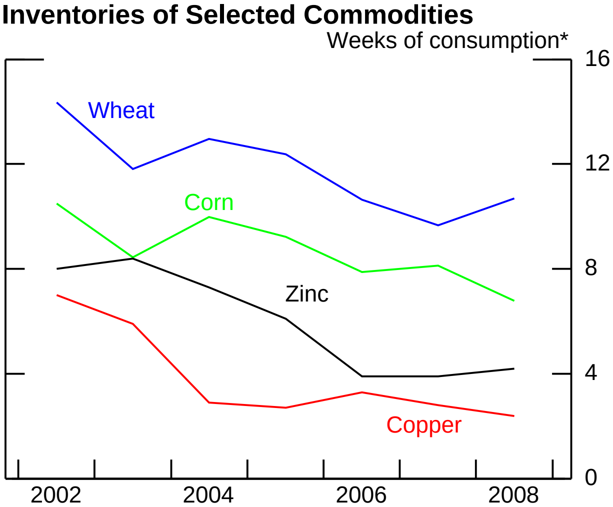
Exhibit 3

Non-fuel Commodities

Non-fuel Commodity Prices

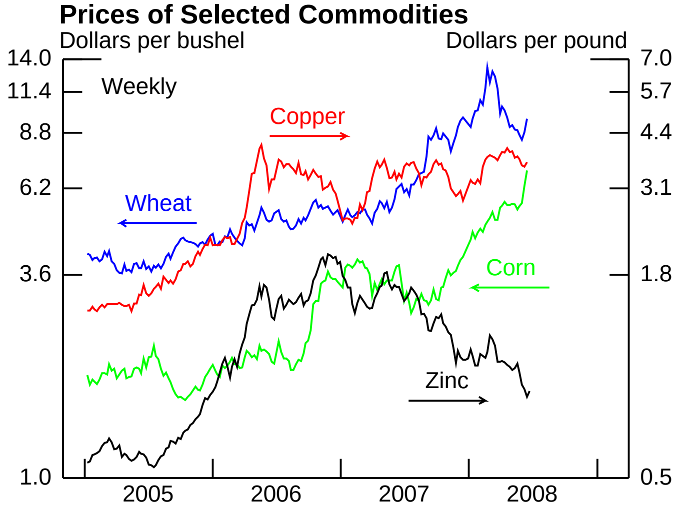


Inventories of Selected Commodities



* Period-end stocks/annual consumption. For grains, 2008 is USDA estimate. For metals, 2008 is stock at end of March over 2007 usage.

Prices of Selected Commodities

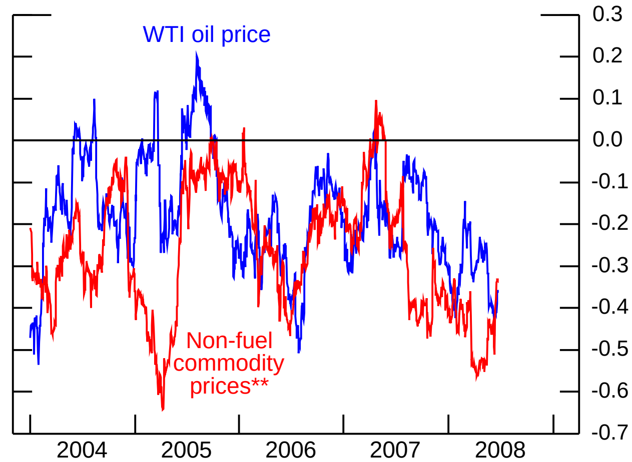


Other Explanations for Recent Moves in Commodity Prices

Role of Speculators?

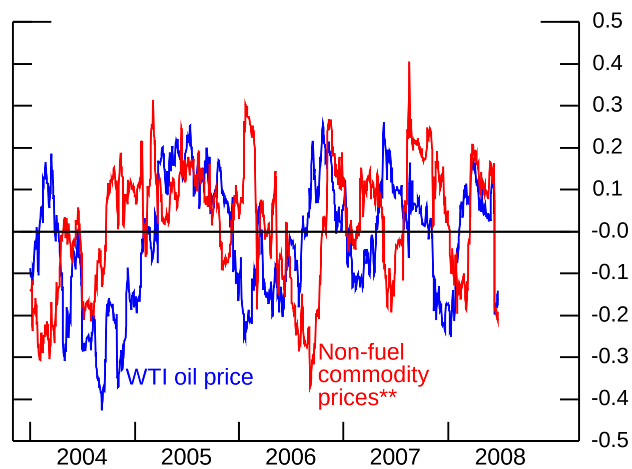
- Prices of commodities not traded in futures markets have also risen.
- Inventories are relatively tight.
- No evidence that positions taken by non-commercial traders predict commodity prices.

Correlations: Commodity Prices and the Dollar*



*60-day moving correlations of daily changes. The dollar is broad nominal index. ** Commodity Research Bureau index.

Correlations: Commodity Prices and Interest Rates*



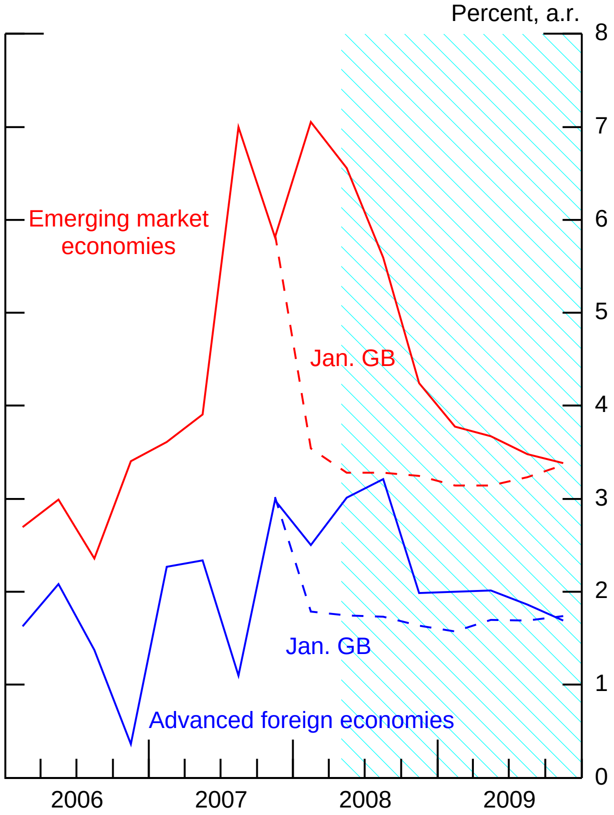
*60-day moving correlations of daily changes. Interest rate is three-month Treasury bill rate. **Commodity Research Bureau index.

Class II FOMC -- Restricted (FR)

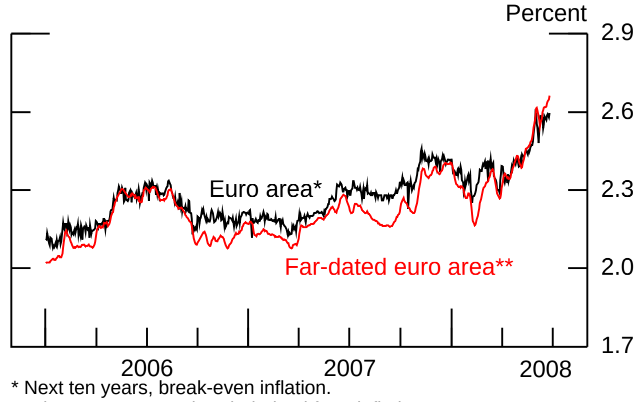
Exhibit 4

Outlook for Foreign Inflation

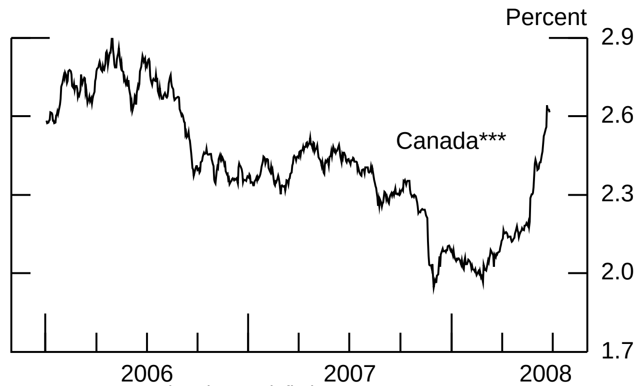
Outlook for Inflation



Inflation Compensation

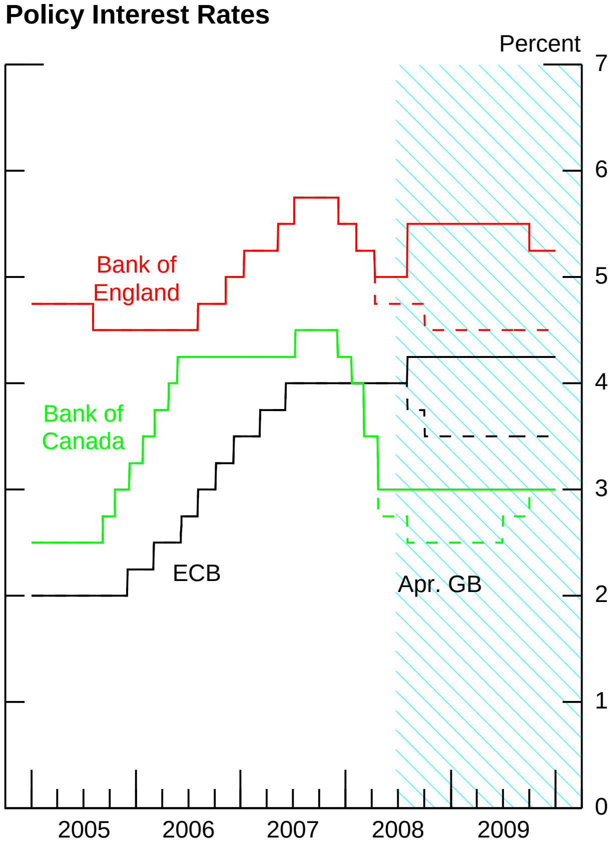


* Next ten years, break-even inflation.
** Five-to-ten years ahead, derived from inflation swaps.

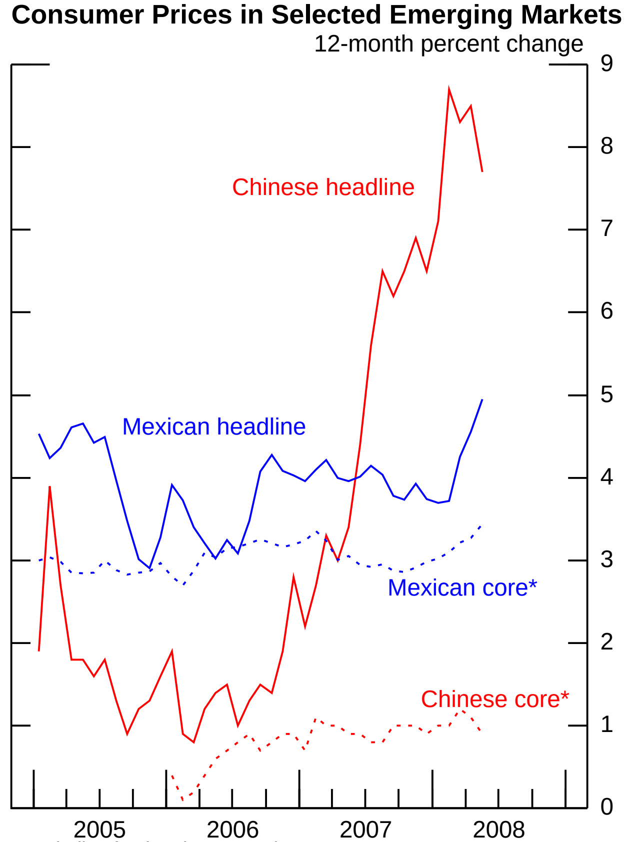


*** Next 15 years, break-even inflation.

Policy Interest Rates



Consumer Prices in Selected Emerging Markets



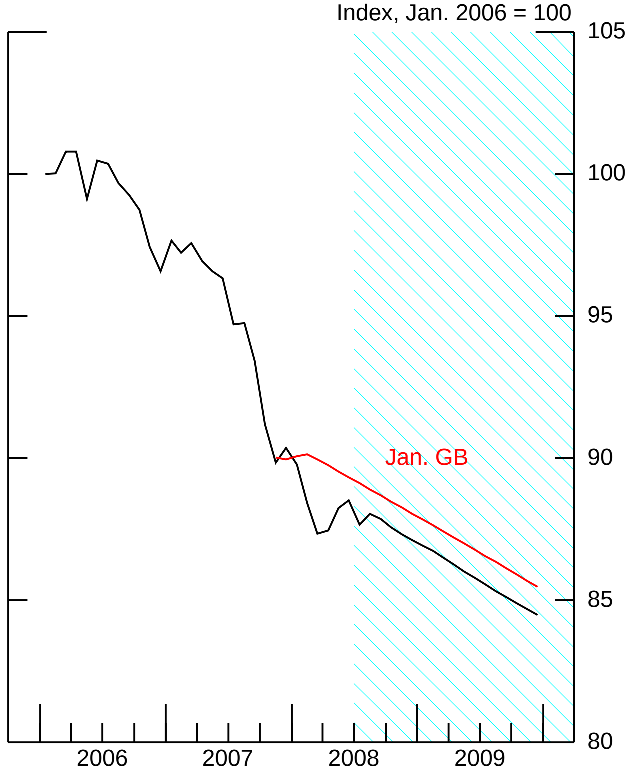
* Excluding food and energy prices.

Class II FOMC -- Restricted (FR)

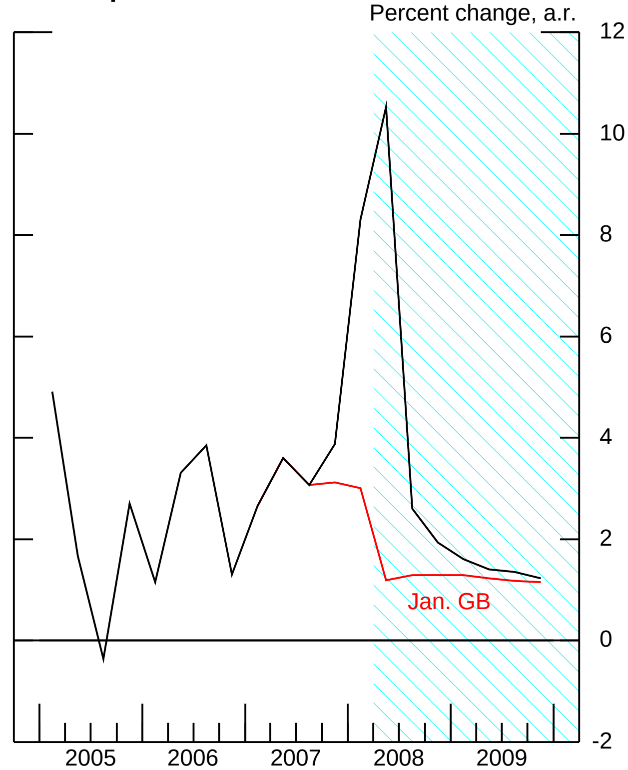
Exhibit 5

U.S. External Sector

Broad Real Dollar



Core Import Prices



U.S. Trade Outlook

	2007 H1	2007 H2	2008 Q1^e	2008 Q2^p	2008 H2^p	2009^p
Growth rates (percent, annual rate*)						
1. Real exports	4.3	12.6	5.6	7.2	7.2	7.5
2. Real imports	0.5	1.4	-0.5	-6.7	1.0	2.8
Contribution to U.S. real GDP growth (percentage points, annual rate*)						
3. Real net exports	0.4	1.2	0.8	2.1	0.7	0.5
Memo:						
4. Current account balance (percent of GDP)	-5.7	-4.9	-5.0	-5.1	-5.4	-4.6
5. Non-oil trade balance (percent of GDP)	-3.1	-2.3	-1.8	-1.7	-1.3	-0.8

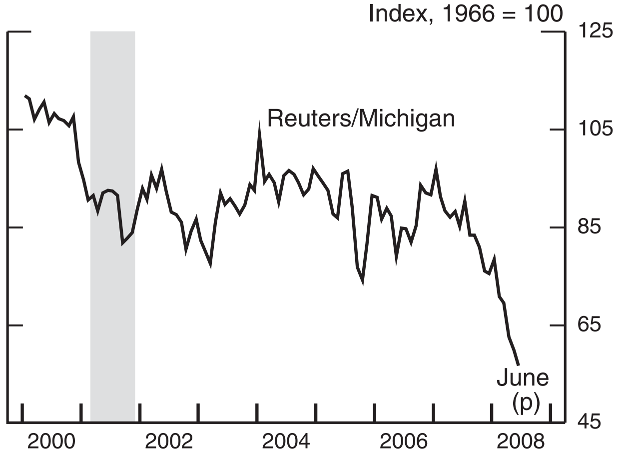
* Year is Q4/Q4; half years are Q2/Q4 or Q4/Q2.

Class II FOMC - Restricted (FR)

Exhibit 6

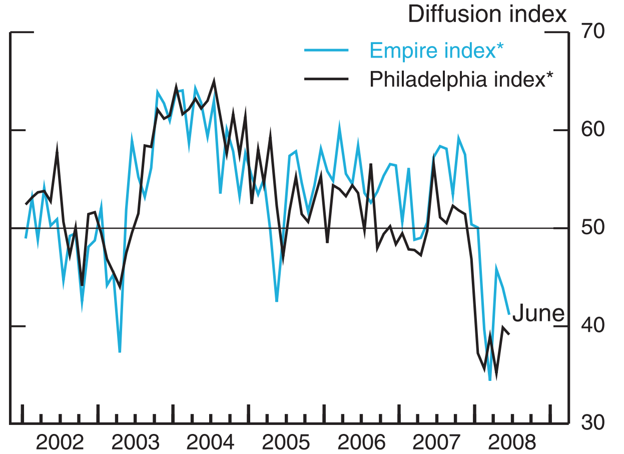
Recent Indicators

Consumer Sentiment Index



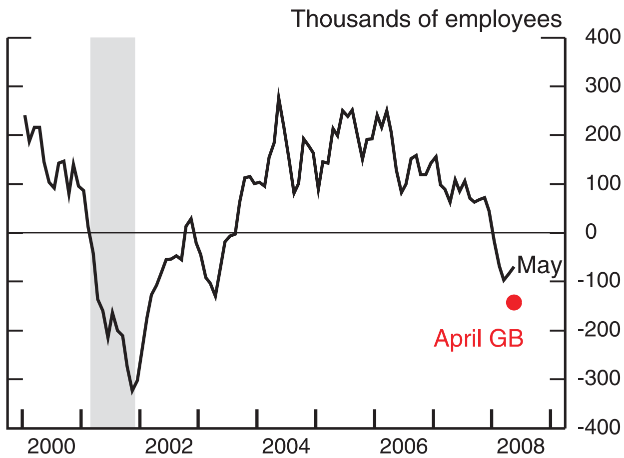
Note: Gray shading represents NBER recession dates.
p - Preliminary

Business Sentiment



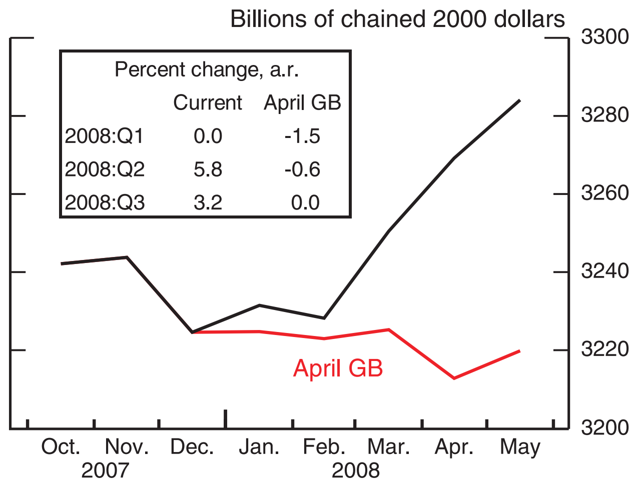
* Index means are normalized.

Change in Private Payroll Employment



Note: Three-month moving average. Gray shading represents NBER recession dates.

Real Goods PCE, Excluding Motor Vehicles



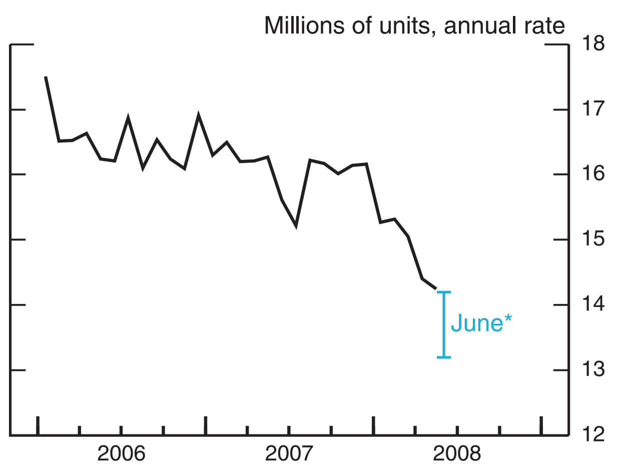
Business Spending Indicators

(Percent change from previous month; monthly rate)

	2008		
	Feb.	March	April
Shipments*	-1.3	0.8	0.2
Orders*	-0.9	-1.0	4.0
Nonresidential construction put in place	1.1	1.2	1.6

* Nondefense capital goods, excluding aircraft.

Sales of Light Vehicles



* Range of industry forecasts.

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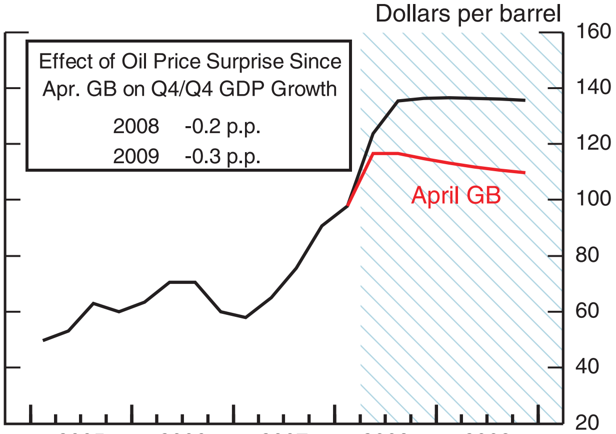
Exhibit 7

Key Background Factors and Medium-Term Outlook

Factors Affecting GDP Forecast

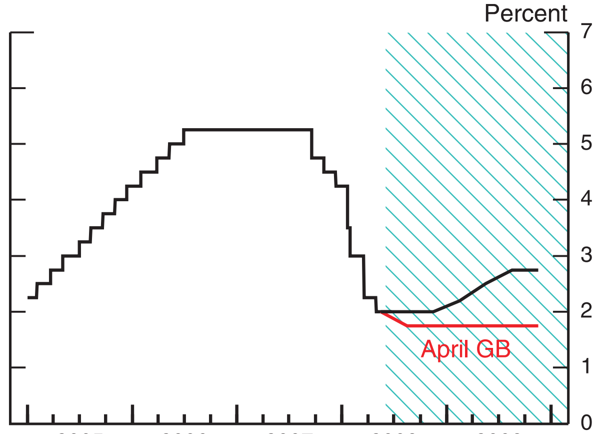
- Revised up the forecast for Q1 and Q2 in light of the incoming information.
- Tempered our judgmental adjustments; but we still anticipate recession-like and financial turmoil effects to show through to spending for the next few quarters.
- Residential investment still a drag on economic growth well into next year.
- Ratio of household net worth to income remains on a downward trajectory.
- Higher oil prices
- Tighter monetary policy
- Faster potential GDP growth

Oil Price



Note: West Texas intermediate spot price.

Federal Funds Rate

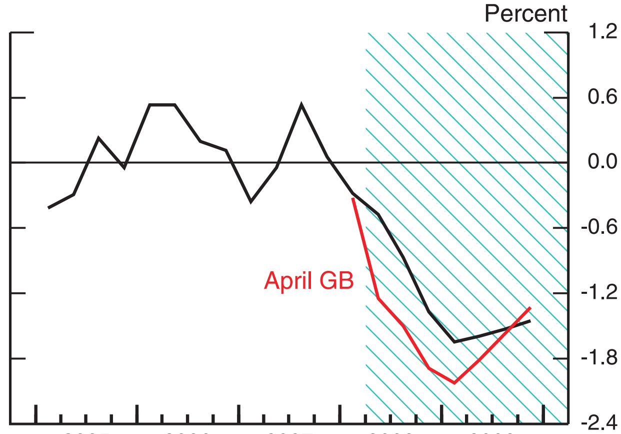


Real GDP Forecast
(Percent change; annual rate)

	Current	April GB
2008:Q1	1.1	0.4
2008:Q2	1.7	-1.4
2008:H2	0.7	0.9
2009	2.4	2.8

Note: Half year figure is Q4/Q2; annual figure is Q4/Q4.

GDP Gap



Note: Percent difference between actual and potential. A negative number indicates that the economy is operating below potential.

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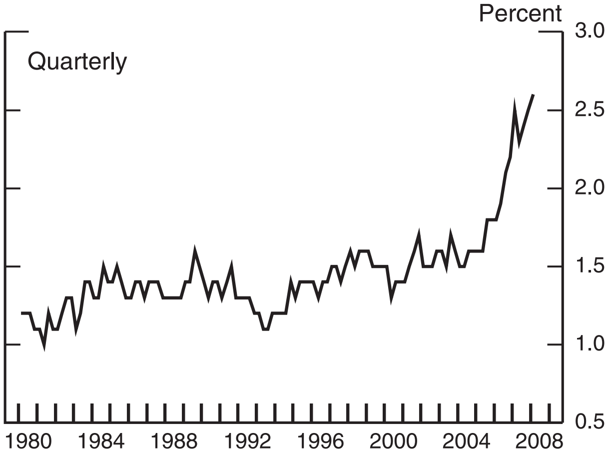
Exhibit 8

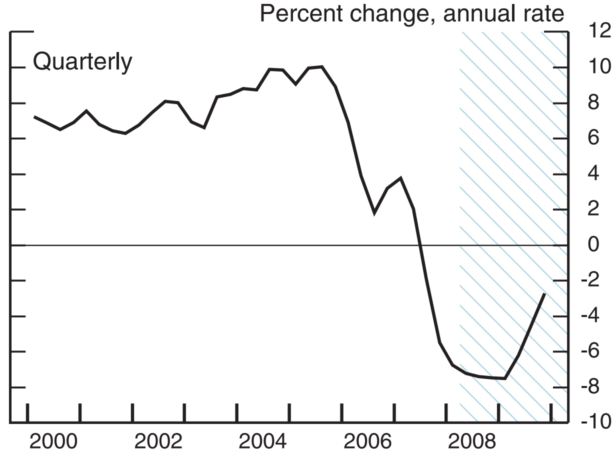
Housing

Vacancy Rate: Single-family Homes*



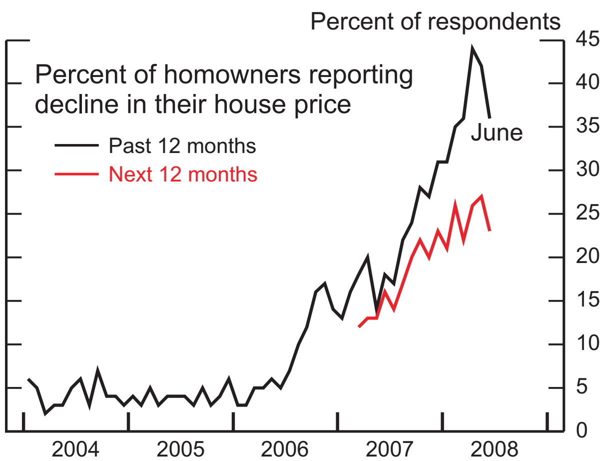
* Vacant units for sale relative to all units (vacant plus occupied).

House Prices

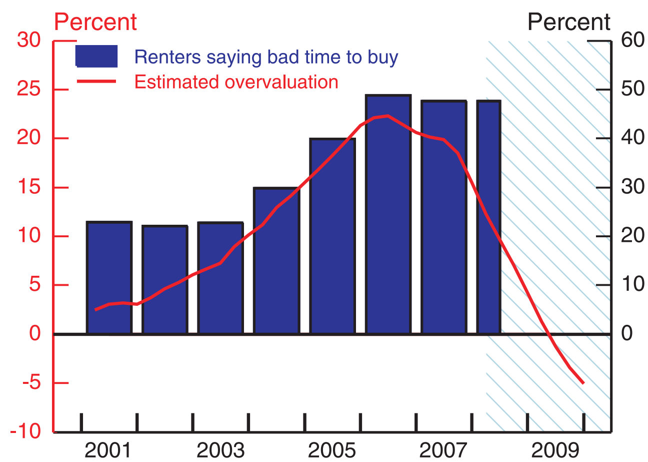


Source: OFHEO purchase-only index.

Perception of Falling House Prices

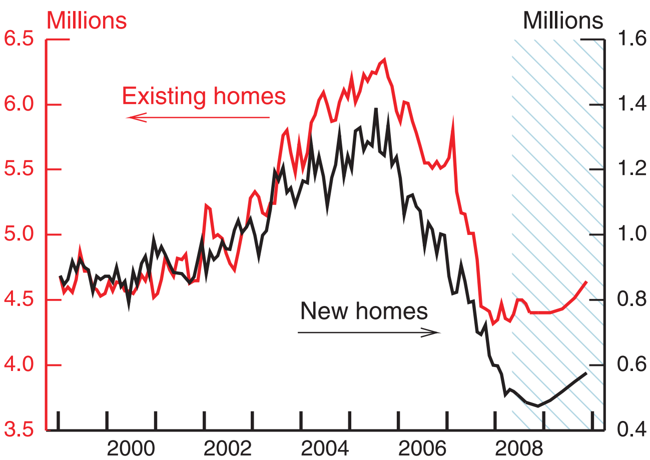


House Price Overvaluation and Renters' Homebuying Attitudes



Source: Homebuying attitudes: Reuters/Michigan Survey microdata files; overvaluation: staff estimate from model of price-rent ratio.

Sales of Single-family Homes



Single-family Housing Starts

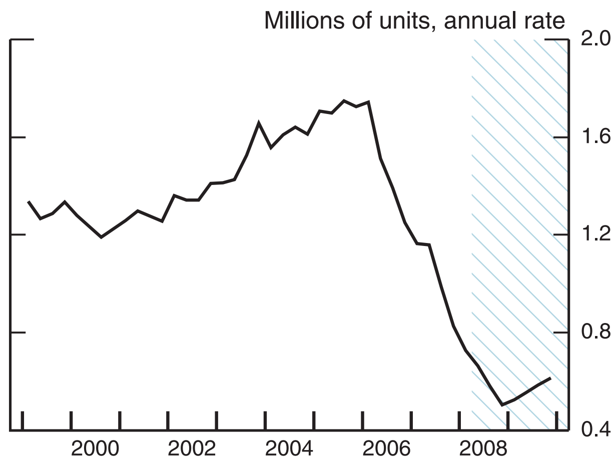


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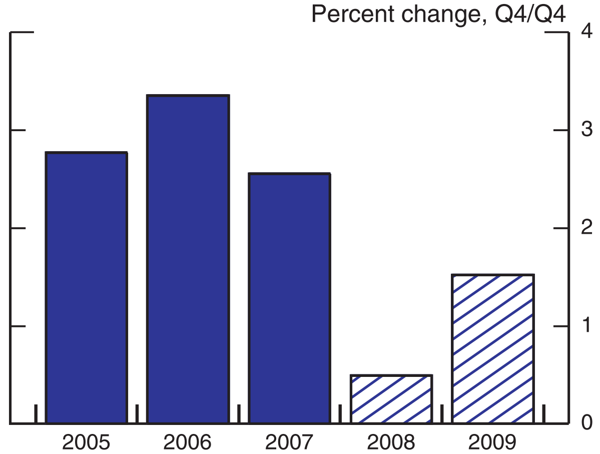
Exhibit 9

Consumption and Investment

Factors Affecting PCE Forecast

- Tax rebates push up the third quarter and create a pothole in the fourth quarter
- Higher oil prices sap household purchasing power
- Hit to household wealth from falling home prices
- Restraining effects of financial turmoil and pessimistic consumer sentiment.

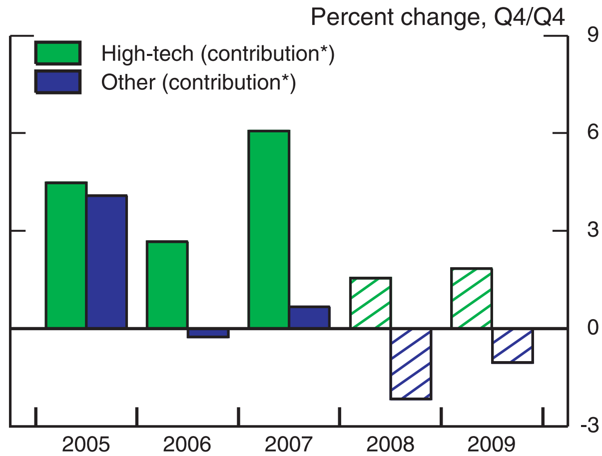
Real PCE



Factors Affecting E&S Forecast

- *High-tech investment*
  - Cautious comments from computer manufacturers.
  - Slowing outlays by telecom service providers
- *Other investment*
  - Accelerator effects
  - Tight lending standards
  - Gloomy business sentiment

E&S Spending Excluding Transportation

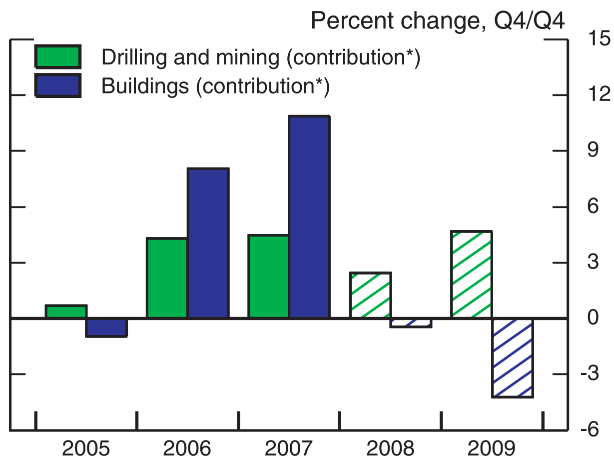


*Contribution to E&S growth rate.

Factors Affecting NRS Forecast

- Drilling and mining
  - Bottlenecks: shortages of skilled labor and supplies
  - Rig count up
  - Escalating energy prices
- Buildings
  - Vacancy rates moving up
  - Sales and prices of existing properties sagging
  - Financing conditions tight

Nonresidential Structures



*Contribution to NRS growth rate.

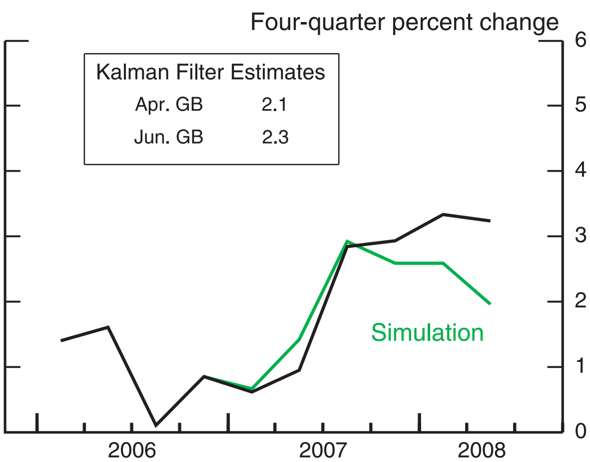
Class II FOMC - Restricted (FR) Exhibit 10

Aggregate Supply and the Labor Market

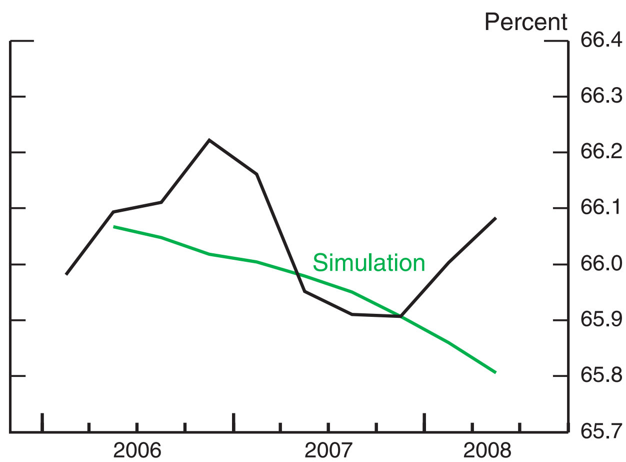
Staff Assumptions
(Percent change)

	2007	2008	2009
1. Potential output	**2.5**	**2.5**	**2.5**
2. (April GB)	***(2.4)***	***(2.3)***	***(2.2)***
3. Structural productivity	2.1	2.0	2.0
4. (April GB)	*(2.1)*	*(1.9)*	*(1.8)*
5. Trend hours	1.0	0.9	0.9
6. (April GB)	*(0.9)*	*(0.8)*	*(0.8)*
7. Technical factors	-0.5	-0.4	-0.4

Labor Productivity: Nonfarm Business Sector

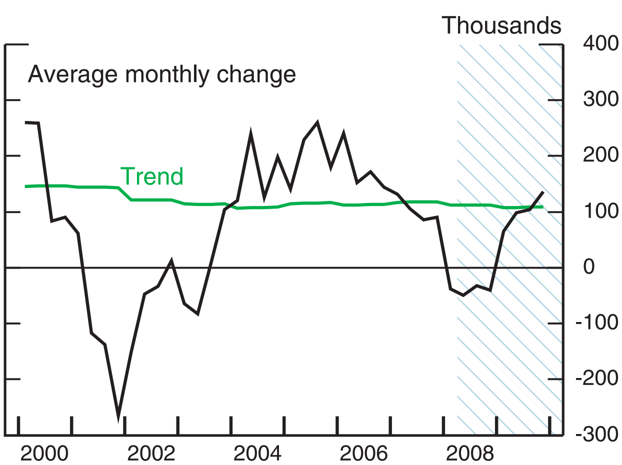


Labor Force Participation Rate

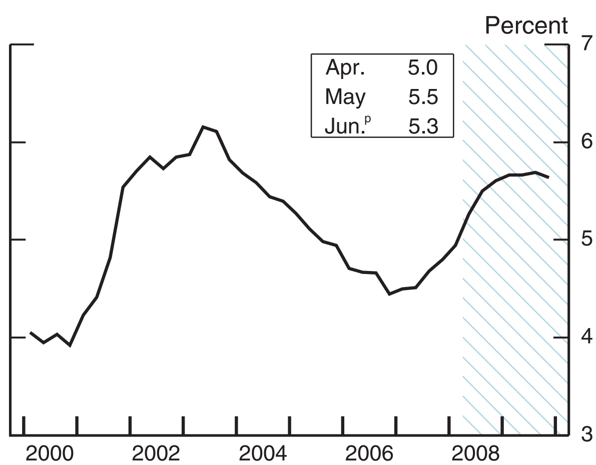


Note: Adjusted for changes in population controls.

Payroll Employment



Unemployment Rate



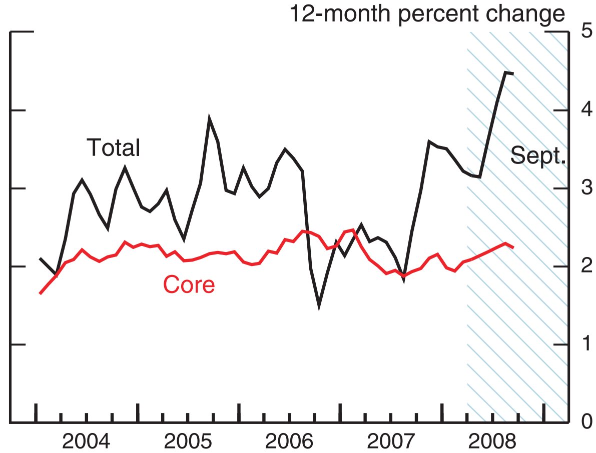
Inflation

Recent Price Data
(Percent change)

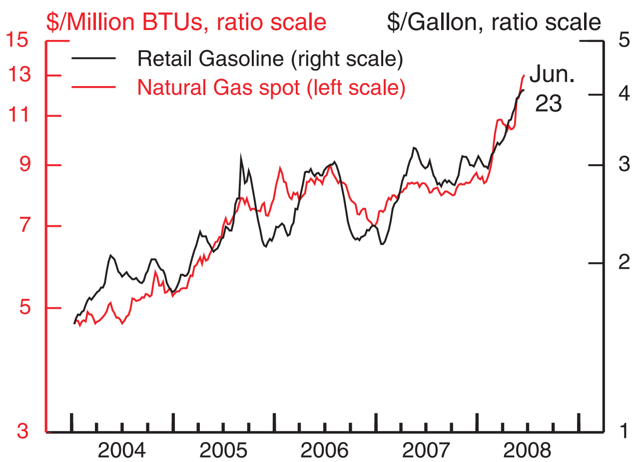
	2008			
	Q1[e]	Q2[p]	April[e]	May[e]
1. Total PCE	3.6	4.1	0.2	0.5
2. (April GB)	*(3.5)*	*(4.3)*	(0.3)	*(0.6)*
3. Core PCE	2.2	2.0	0.1	0.2
4. (April GB)	*(2.1)*	*(2.3)*	*(0.2)*	*(0.2)*

Note: Quarterly figures are at annual rates.

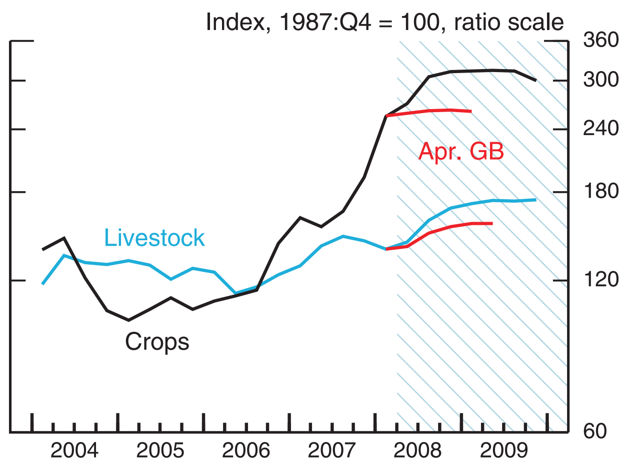
Total and Core PCE Prices



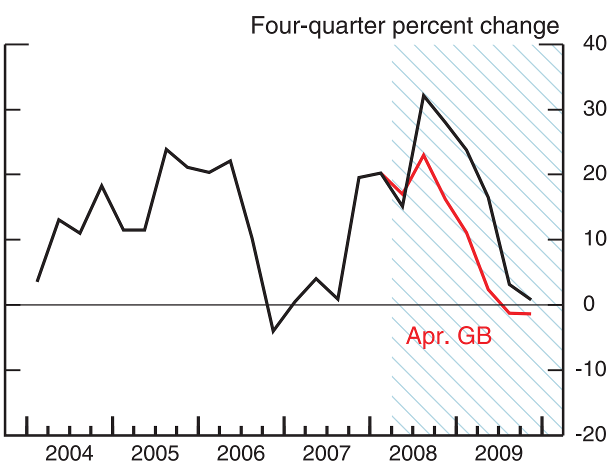
Gasoline and Natural Gas Prices



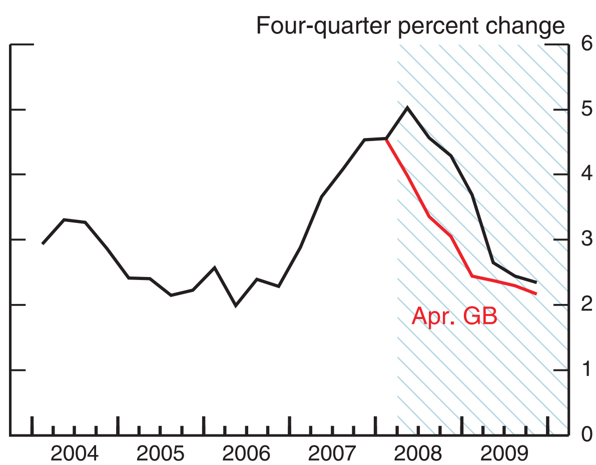
Spot and Futures Prices for Food Commodities



PCE Energy Prices



PCE Food Prices

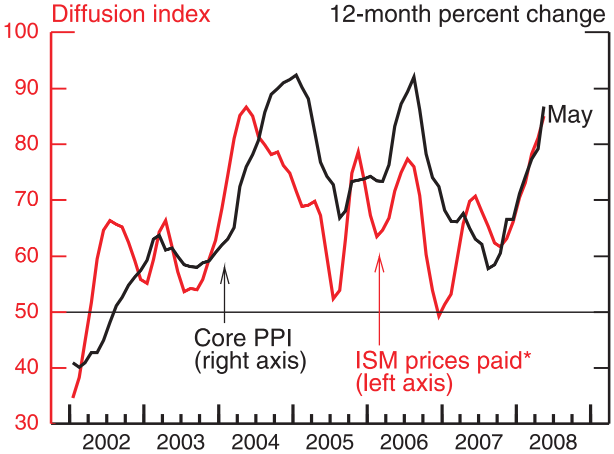


Class II FOMC - Restricted (FR)

Exhibit 12

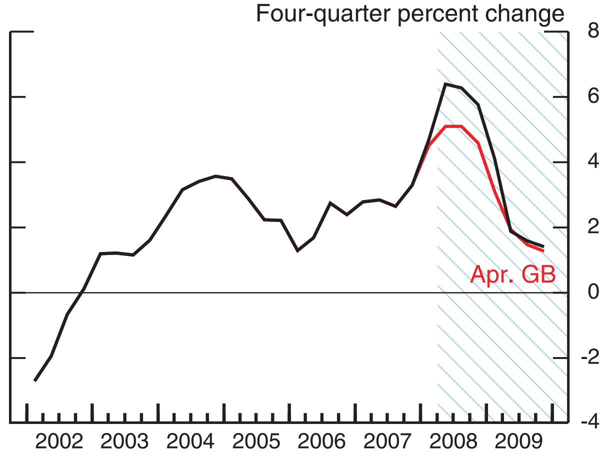
Indicators of Input Costs

Intermediate Materials Prices

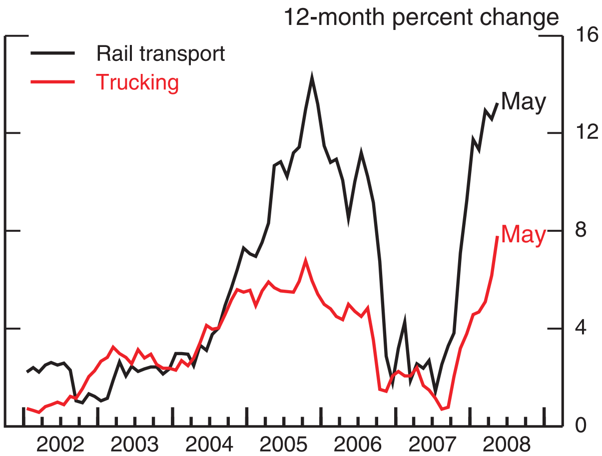


* Three-month moving average; manufacturing firms.

Core Nonfuel Import Prices

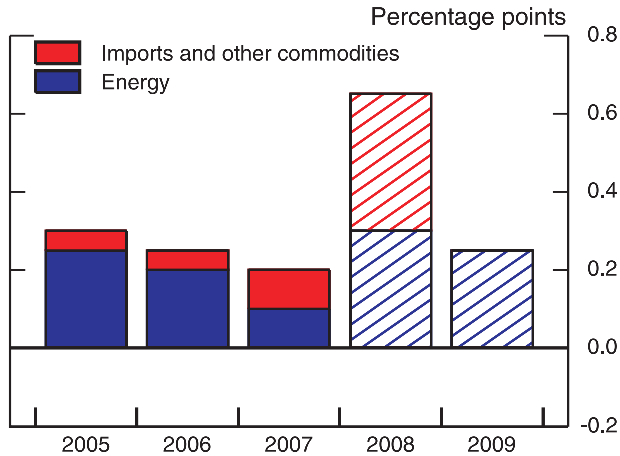


Transportation Costs

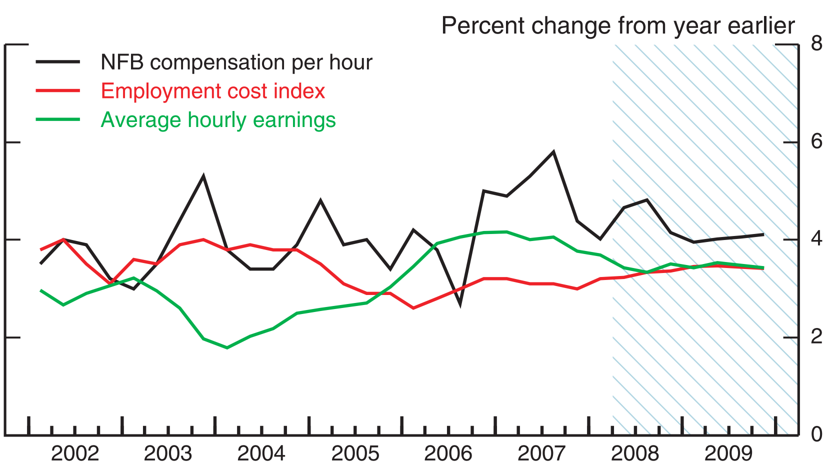


Note: Producer price indexes.

Direct Effects of Commodity and Import Prices on Core Inflation



Labor Compensation



Unit Labor Costs*

Percent change, Q4/Q4

	Actual	Trend
2006	4.2	2.9
2007	1.4	2.3
2008p	2.3	2.1
2009p	2.0	2.1

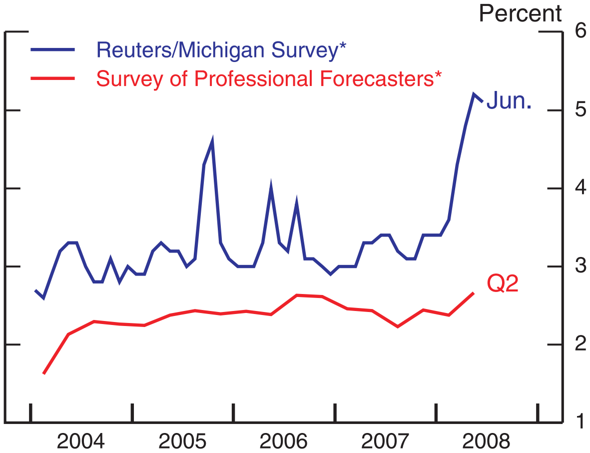
* Nonfarm business sector.

Class II FOMC - Restricted (FR)

Exhibit 13

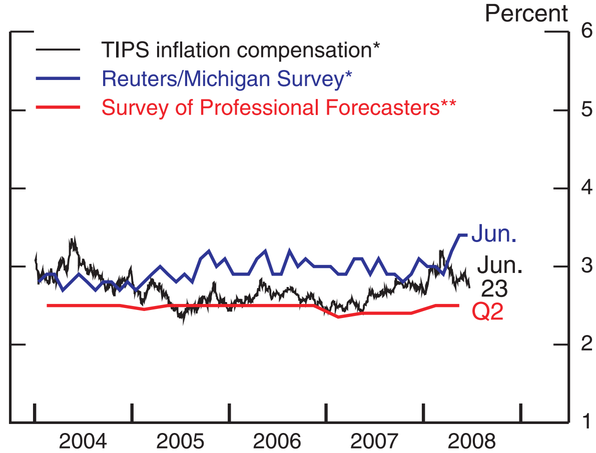
Inflation Projection

Short-Run Inflation Expectations



* Next 12 months.

Long-Run Inflation Expectations



* Five-to-ten years ahead.
** Next ten years.

PCE Price Projections

(Percent change, annual rate)

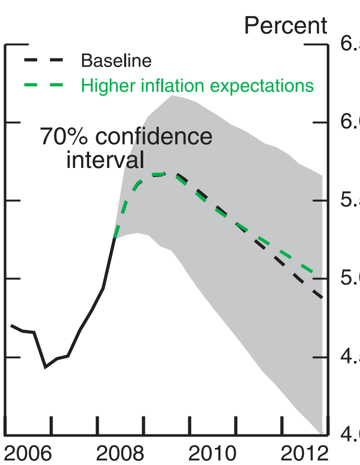
	2008 H1	2008 H2	2009
1. Total	3.8	4.5	2.1
2. (April GB)	*3.9*	*2.7*	*1.8*
3. Core	2.1	2.5	2.2
4. (April GB)	*2.2*	*2.4*	*2.0*

Note: Annual figures are Q4/Q4 percent changes.

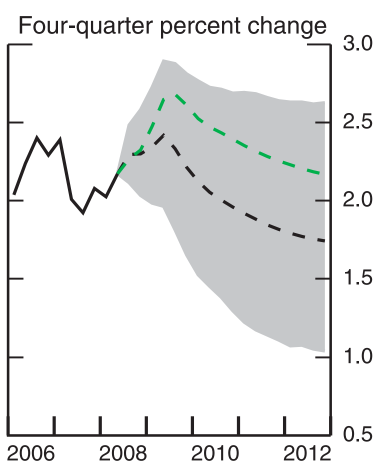
Alternative Simulation

- Long-run inflation expectations move up ¾ percentage point relative to baseline.
- Monetary policy responds according to the estimated Taylor rule.

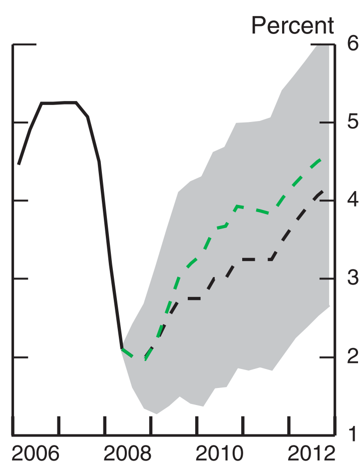
Unemployment Rate



Core PCE Prices



Federal Funds Rate



Appendix 3: Materials used by Mr. Madigan

Class I FOMC – Restricted Controlled (FR)

Material for Briefing on FOMC Participants' Economic Projections

Brian Madigan
June 24, 2008

Table 1: Economic Projections of Federal Reserve Governors and Reserve Bank Presidents

	2008:H1	2008:H2
Central Tendencies		
(percent, annual rate)		
Real GDP Growth	1.2 to 1.4	0.6 to 2.1
April projections	*-0.4 to 0.5*	*1.0 to 1.9*
PCE Inflation	3.7 to 4.0	3.6 to 4.6
April projections	*3.5 to 4.0*	*2.5 to 3.1*
Core PCE Inflation	2.1 to 2.2	2.3 to 2.5
April projections	*2.2 to 2.4*	*2.2 to 2.4*
Ranges		
(percent, annual rate)		
Real GDP Growth	1.0 to 1.5	0.4 to 2.2
April projections	*-0.5 to 0.6*	*0.4 to 2.9*
PCE Inflation	3.6 to 4.6	3.2 to 4.8
April projections	*3.0 to 4.4*	*2.3 to 3.6*
Core PCE Inflation	2.0 to 2.4	2.0 to 2.6
April projections	*2.0 to 2.5*	*1.7 to 2.7*
Memo: Greenbook		
(percent, annual rate)		
Real GDP Growth	1.4	0.7
April Greenbook	*-0.5*	*0.9*
PCE Inflation	3.8	4.5
April Greenbook	*3.9*	*2.7*
Core PCE Inflation	2.1	2.5
April Greenbook	*2.2*	*2.4*

Table 2: Economic Projections of Federal Reserve Governors and Reserve Bank Presidents

	2008	2009	2010
Central Tendencies			
(percent)			
Real GDP Growth	1.0 to 1.6	2.0 to 2.8	2.5 to 3.0
April projections	*0.3 to 1.2*	*2.0 to 2.8*	*2.6 to 3.1*
Unemployment Rate	5.5 to 5.7	5.3 to 5.8	5.0 to 5.6
April projections	*5.5 to 5.7*	*5.2 to 5.7*	*4.9 to 5.5*
PCE Inflation	3.8 to 4.2	2.0 to 2.3	1.8 to 2.0
April projections	*3.1 to 3.4*	*1.9 to 2.3*	*1.8 to 2.0*
Core PCE Inflation	2.2 to 2.4	2.0 to 2.2	1.8 to 2.0
April projections	*2.2 to 2.4*	*1.9 to 2.1*	*1.7 to 1.9*
Ranges			
(percent)			
Real GDP Growth	0.9 to 1.8	1.9 to 3.0	2.0 to 3.5
April projections	*0.0 to 1.5*	*1.8 to 3.0*	*2.0 to 3.4*
Unemployment Rate	5.5 to 5.8	5.2 to 6.1	5.0 to 5.8
April projections	*5.3 to 6.0*	*5.2 to 6.3*	*4.8 to 5.9*
PCE Inflation	3.4 to 4.6	1.7 to 3.0	1.6 to 2.1
April projections	*2.8 to 3.8*	*1.7 to 3.0*	*1.5 to 2.0*
Core PCE Inflation	2.0 to 2.5	1.8 to 2.3	1.5 to 2.0
April projections	*1.9 to 2.5*	*1.7 to 2.2*	*1.3 to 2.0*
Memo: Greenbook			
(percent)			
Real GDP Growth	1.0	2.4	3.1
April Greenbook	*0.2*	*2.8*	*3.1*
Unemployment Rate	5.6	5.6	5.4
April Greenbook	*5.7*	*5.5*	*5.2*
PCE Inflation	4.2	2.1	1.9
April Greenbook	*3.3*	*1.8*	*1.8*
Core PCE Inflation	2.3	2.2	2.0
April Greenbook	*2.3*	*2.0*	*1.8*

Exhibit 3
Risks and Uncertainty in Economic Projections

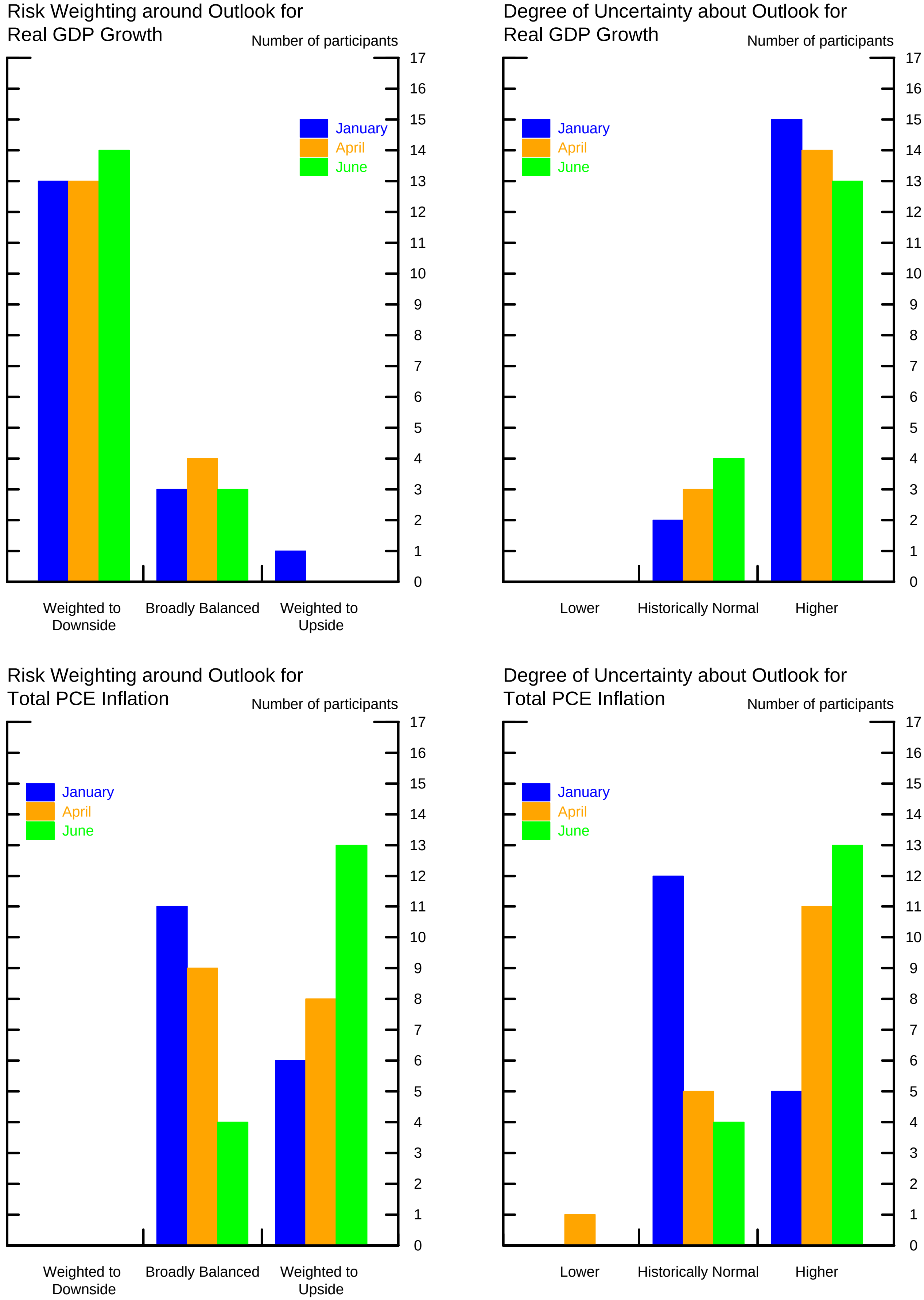


Exhibit 4
Consideration of Long-Term Projections

Issue

- Current three-year horizon for projections does not always reveal your views of:
  - Steady-state characteristics of economy
    - Sustainable rate of unemployment
    - Sustainable rate of output growth
  - Rate of inflation consistent with dual mandate

Alternative approaches

1. Extend entire set of projections for four variables and forecast narratives out to five years.
   a. Advantage: full, coherent presentation
   b. Disadvantage: burden on participants
2. Maintain three-year projection horizon for four variables but add fifth-year projections for output growth, unemployment, and total inflation
   a. Advantage: less burden on participants
   b. Disadvantage: less complete explanation of transition to steady state
3. Maintain three-year projection horizon for four variables but add estimates of long-run averages of output growth, unemployment, and total inflation five to ten years ahead
   a. Advantage: no need for participants to project fourth and fifth years for four variables
   b. Disadvantages:
      i. Less complete explanation of transition to steady state
      ii. Need to forecast long-run demographic and productivity trends

Appendix 4: Materials used by Mr. Madigan

Class I FOMC – Restricted Controlled (FR)

Material for

FOMC Briefing on Monetary Policy Alternatives

Brian Madigan
June 24-25, 2008

Authorized for Public Release

Exhibit 1

Class I FOMC – Restricted Controlled (FR) **Table 1: Alternative Language for the June 2008 FOMC Announcement** Bluebook version, slightly revised

	April FOMC	Alternative A	Alternative B	Alternative C
Policy Decision	1. The Federal Open Market Committee decided today to lower its target for the federal funds rate 25 basis points to 2 percent.	The Federal Open Market Committee decided today to lower its target for the federal funds rate 25 basis points to 1-3/4 percent.	The Federal Open Market Committee decided today to keep its target for the federal funds rate at 2 percent.	The Federal Open Market Committee decided today to raise its target for the federal funds rate 25 basis points to 2-1/4 percent.
Rationale	2. Recent information indicates that economic activity remains weak. Household and business spending has been subdued and labor markets have softened further. Financial markets remain under considerable stress, and tight credit conditions and the deepening housing contraction are likely to weigh on economic growth over the next few quarters.	Recent information indicates that economic activity has remained weak in recent months. Although consumer spending appears to have firmed somewhat, residential investment has continued to contract sharply and labor markets have softened further. Financial markets remain under considerable stress, and tight credit conditions and the deepening housing contraction are likely to weigh on economic growth over the next few quarters.	Recent information indicates that overall economic activity continues to expand, partly reflecting some firming in household spending. However, labor markets have softened further and financial markets remain under considerable stress. Tight credit conditions, the ongoing housing contraction, and the rise in energy prices are likely to weigh on economic growth over the next few quarters.	Recent information indicates that overall economic activity continues to expand, partly reflecting some firming in household spending. However, labor markets have softened further and financial markets remain under considerable stress. Tight credit conditions, the ongoing housing contraction, and the rise in energy prices are likely to weigh on economic growth over the next few quarters.
	3. Although readings on core inflation have improved somewhat, energy and other commodity prices have increased, and some indicators of inflation expectations have risen in recent months. The Committee expects inflation to moderate in coming quarters, reflecting a projected leveling-out of energy and other commodity prices and an easing of pressures on resource utilization. Still, uncertainty about the inflation outlook remains high. It will be necessary to continue to monitor inflation developments carefully.	Although energy prices have increased further and some indicators of inflation expectations have risen in recent months, core inflation has been stable of late. The Committee expects inflation to moderate later this year and next year, reflecting a projected leveling-out of energy prices and an easing of pressures on resource utilization. Still, uncertainty about the inflation outlook remains high. It will be necessary to continue to monitor inflation developments carefully.	The Committee expects inflation to moderate later this year and next year. However, in light of the continued increases in the prices of energy and some other commodities and the elevated state of some indicators of inflation expectations, uncertainty about the inflation outlook remains high.	Overall inflation has been elevated, energy prices have continued to increase, and some indicators of inflation expectations have risen further. The Committee expects inflation to moderate later this year and next year, partly reflecting today's policy action. Still, uncertainty about the inflation outlook remains high. It will be necessary to continue to monitor inflation developments carefully.
Assessment of Risk	4. The substantial easing of monetary policy to date, combined with ongoing measures to foster market liquidity, should help to promote moderate growth over time and to mitigate risks to economic activity. The Committee will continue to monitor economic and financial developments and will act as needed to promote sustainable economic growth and price stability.	The substantial easing of monetary policy to date, combined with ongoing measures to foster market liquidity, should help to promote moderate growth over time and to mitigate risks to economic activity. The Committee will continue to monitor economic and financial developments and will act as needed to promote sustainable economic growth and price stability.	The substantial easing of monetary policy to date, combined with ongoing measures to foster market liquidity, should help to promote moderate growth over time. Although downside risks to growth remain, they appear to have diminished somewhat, and the upside risks to ~~near-term~~ inflation and inflation expectations have increased. The Committee will continue to monitor economic and financial developments and will act as needed to promote sustainable economic growth and price stability.	Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information on the economy and financial conditions.

Exhibit 2

Optimal Policy Under Alternative Inflation Goals

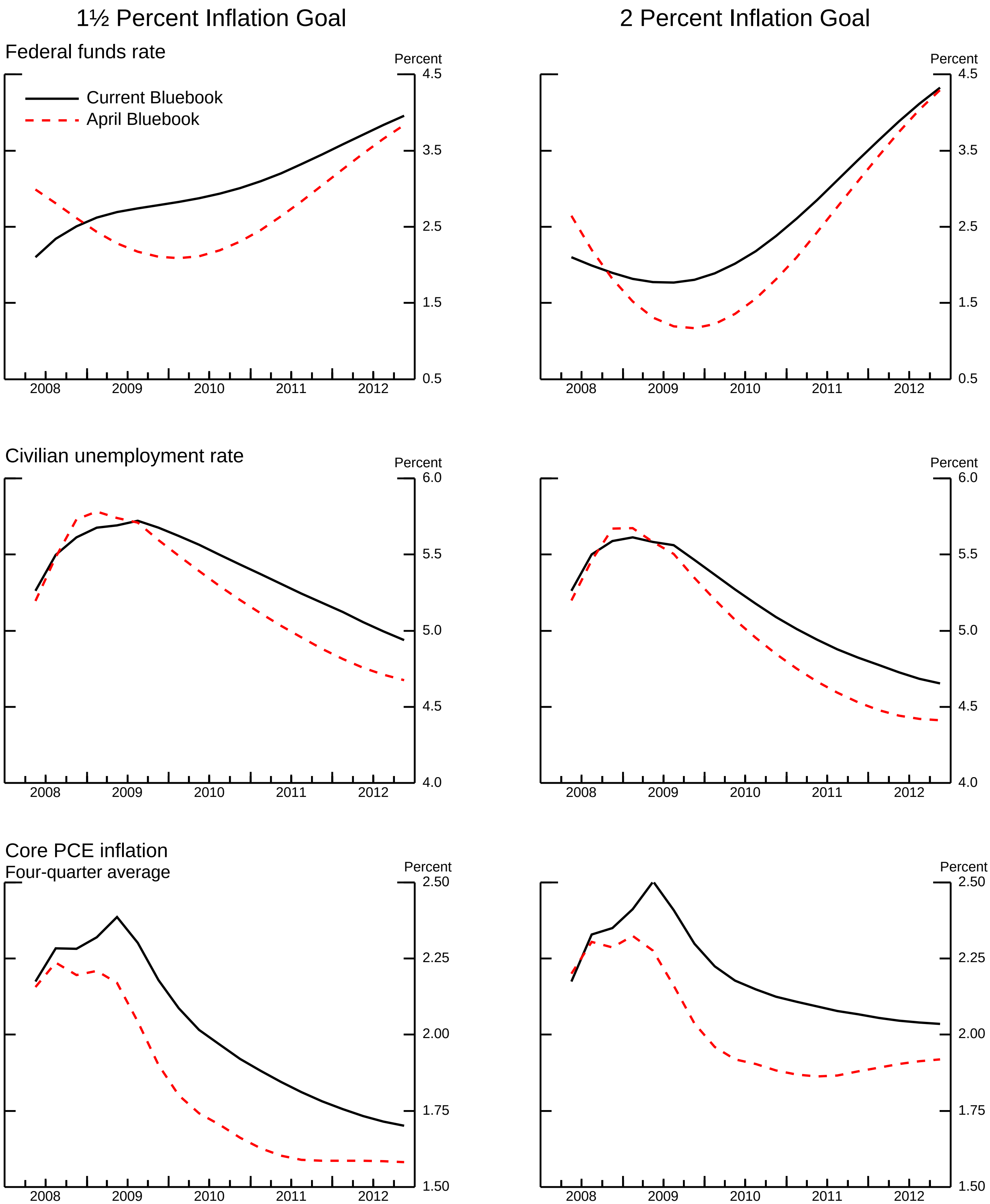
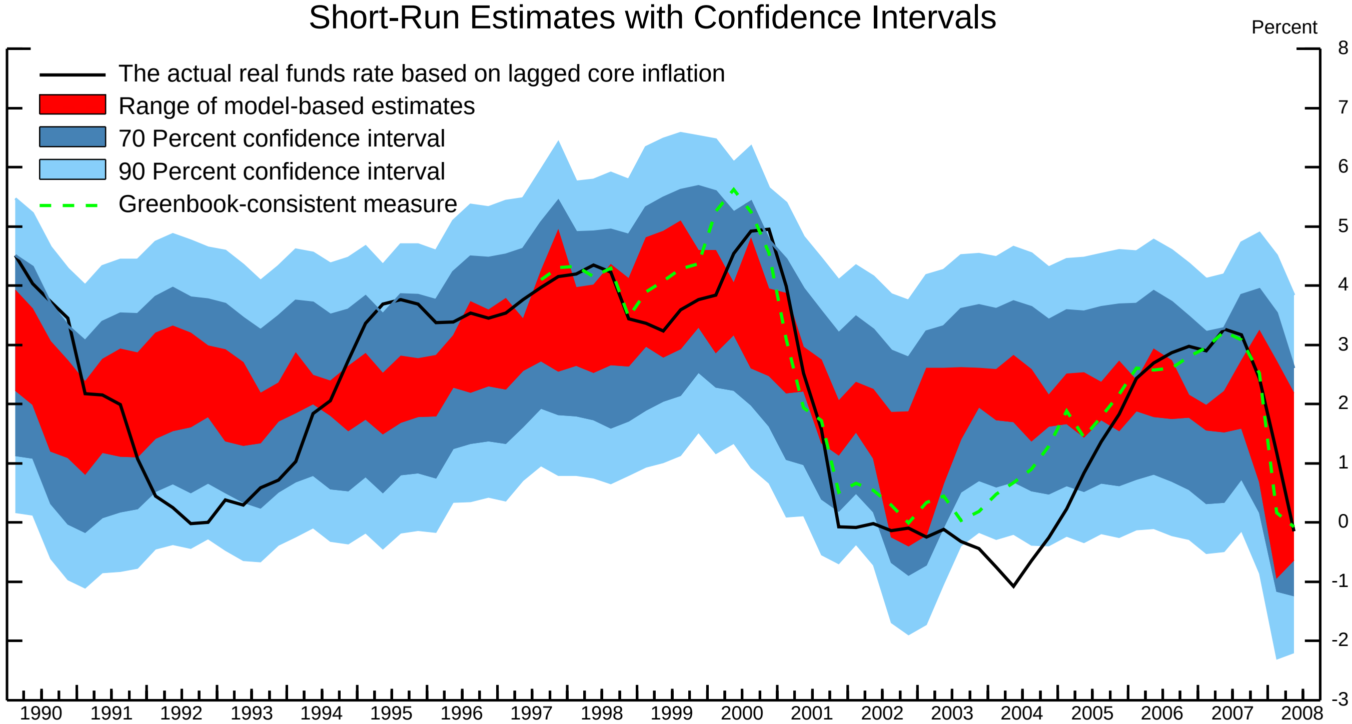


Exhibit 3
Equilibrium Real Federal Funds Rate

Short-Run Estimates with Confidence Intervals



Short-Run and Medium-Run Measures

	Current Estimate	*Previous Bluebook*
Short-Run Measures		
1. Single-equation model	2.2	*2.1*
2. Small structural model	-0.6	*-0.8*
3. Large model (FRB/US)	0.4	*0.3*
Confidence intervals for three model-based estimates		
4a. 70 percent confidence interval	-1.2 - 2.6	
4b. 90 percent confidence interval	-2.2 - 3.8	
5. Greenbook-consistent measure	-0.1	*-0.5*
Medium-Run Measures		
6. Single-equation model	2.2	*2.2*
7. Small structural model	1.8	*1.7*
Confidence intervals for two model-based estimates		
8a. 70 percent confidence interval	1.1 - 2.9	
8b. 90 percent confidence interval	0.5 - 3.7	
9. TIPS-based factor model	2.0	*2.0*
Measures of Actual Real Federal Funds Rate		
10. Based on lagged core inflation	-0.2	*0.1*
11. Based on lagged headline inflation	-1.3	*-1.1**
12. Based on Greenbook projection of headline inflation	-1.3	*-0.7**

* This measure was not reported in the April Bluebook.

Note: Appendix A provides background information regarding the construction of these measures and confidence intervals.

Appendix 5: Materials used by Messrs. Angulo, Alvarez, and Parkinson

Class I FOMC – Restricted Controlled (FR)

Material for

Supervisory Report Concerning Investment Banks and Related Policy Issues

June 25, 2008

Primary Dealer Monitoring Update

June 25, 2008

Presentation Overview

- Objectives and Approach
- Current Focus at Four Investment Banks
  - Capital
  - Liquidity
- PDCF (and TSLF) Usage
- Near-Term Issues

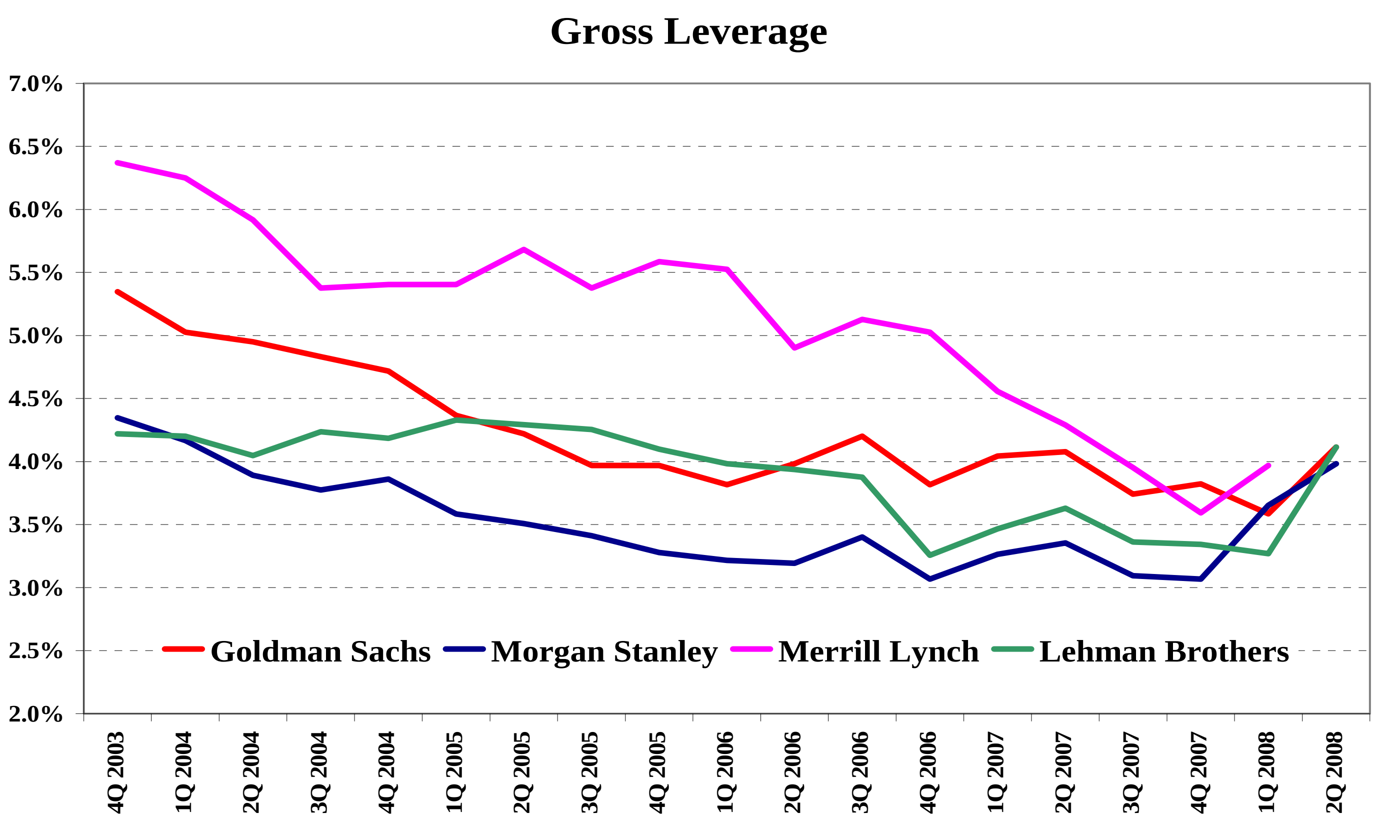
Objectives

- Tied closely to Primary Dealer Credit Facility (PDCF) and FRA 13(3) authority
- Build the capability to exercise informed judgment about the capital and liquidity positions of the primary dealers given their access to the PDCF
- Minimize the risk that the availability of financing under the PDCF undermines the incentives for primary dealers to manage capital and liquidity more conservatively

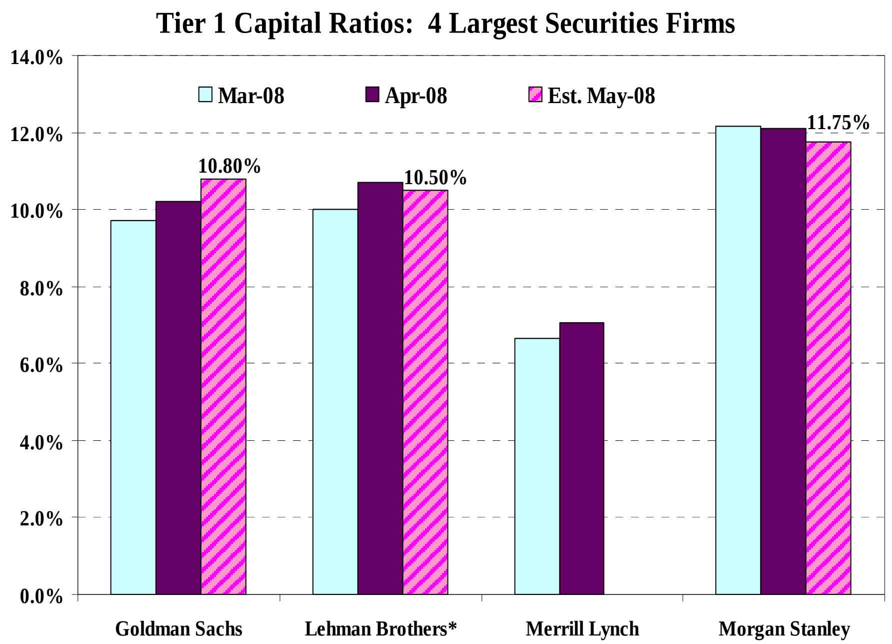
Approach

- Focus is on the firms that own primary dealers not affiliated with financial holding companies -- primarily the four largest investment banks.
  - Limited on-site presence + off-site staff
  - Direct contact with management
  - Information sharing and communication with SEC
  - ...but we are not engaged in traditional bank supervision
  - Current focus at the four investment banks is on capital and liquidity
    - Capital – increasing (but not sole) focus on risk-based capital (RBC)
    - Liquidity – iterative approach

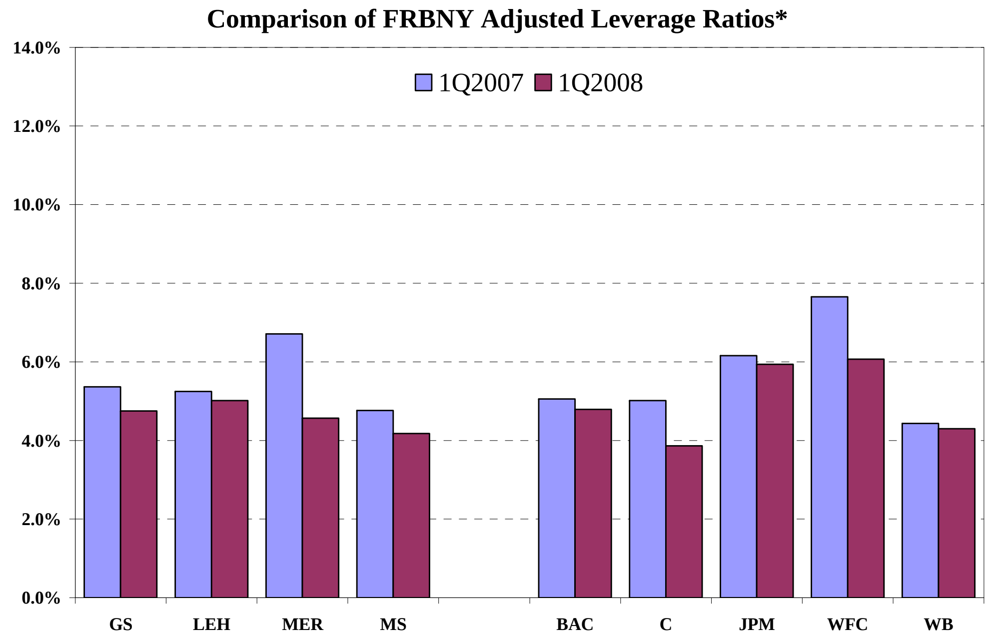
Leverage Trend as Reported by the Firms



Capital – Current View

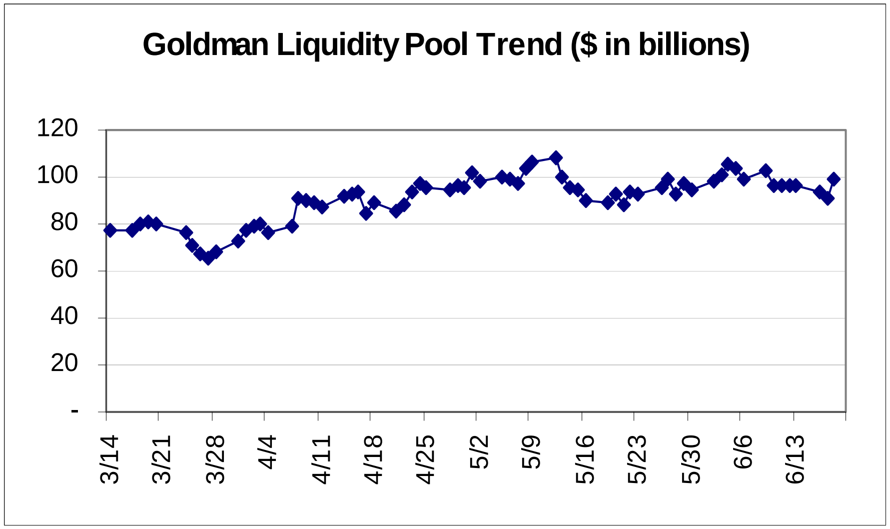


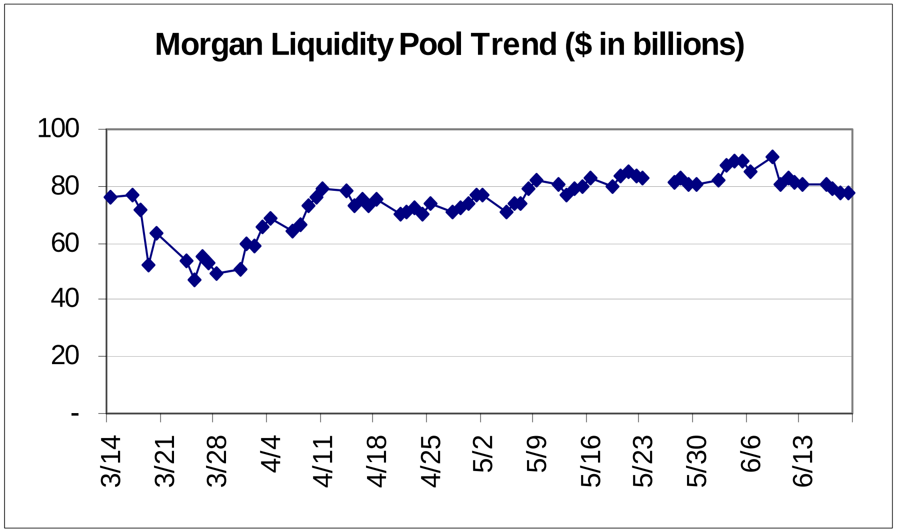
* Note: For May this ratio would be 12.5% with June capital raise included

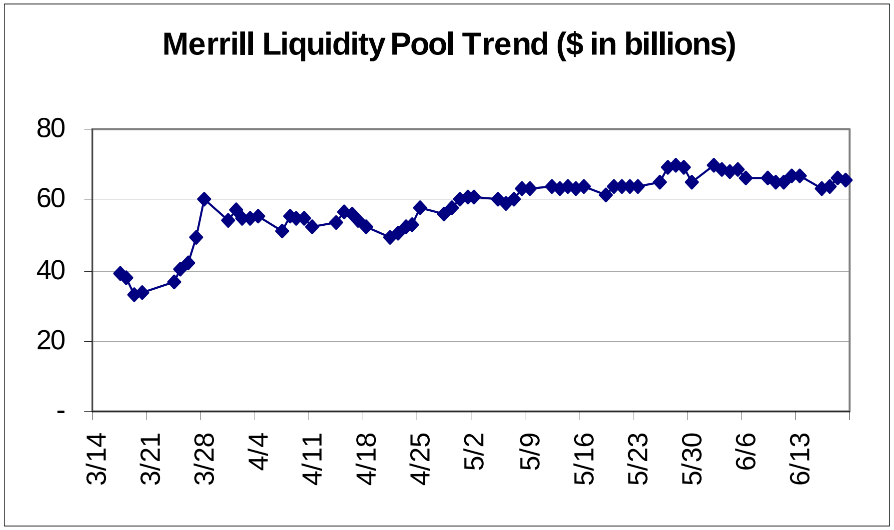


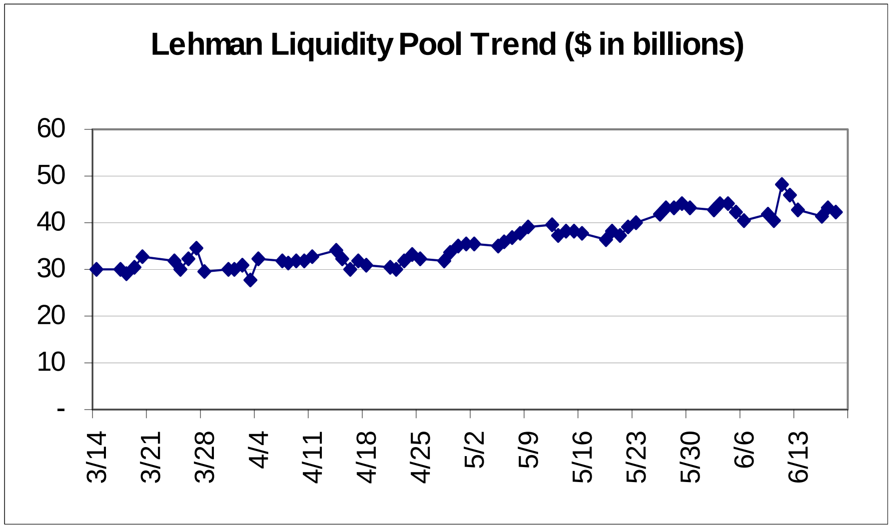
* Note: FRBNY Leverage Ratio = Tangible Equity / Total Assets less Secured Financing Assets and Intangible Assets

Recent Trend in Parent Company Liquidity Pools









Liquidity Stress Approach

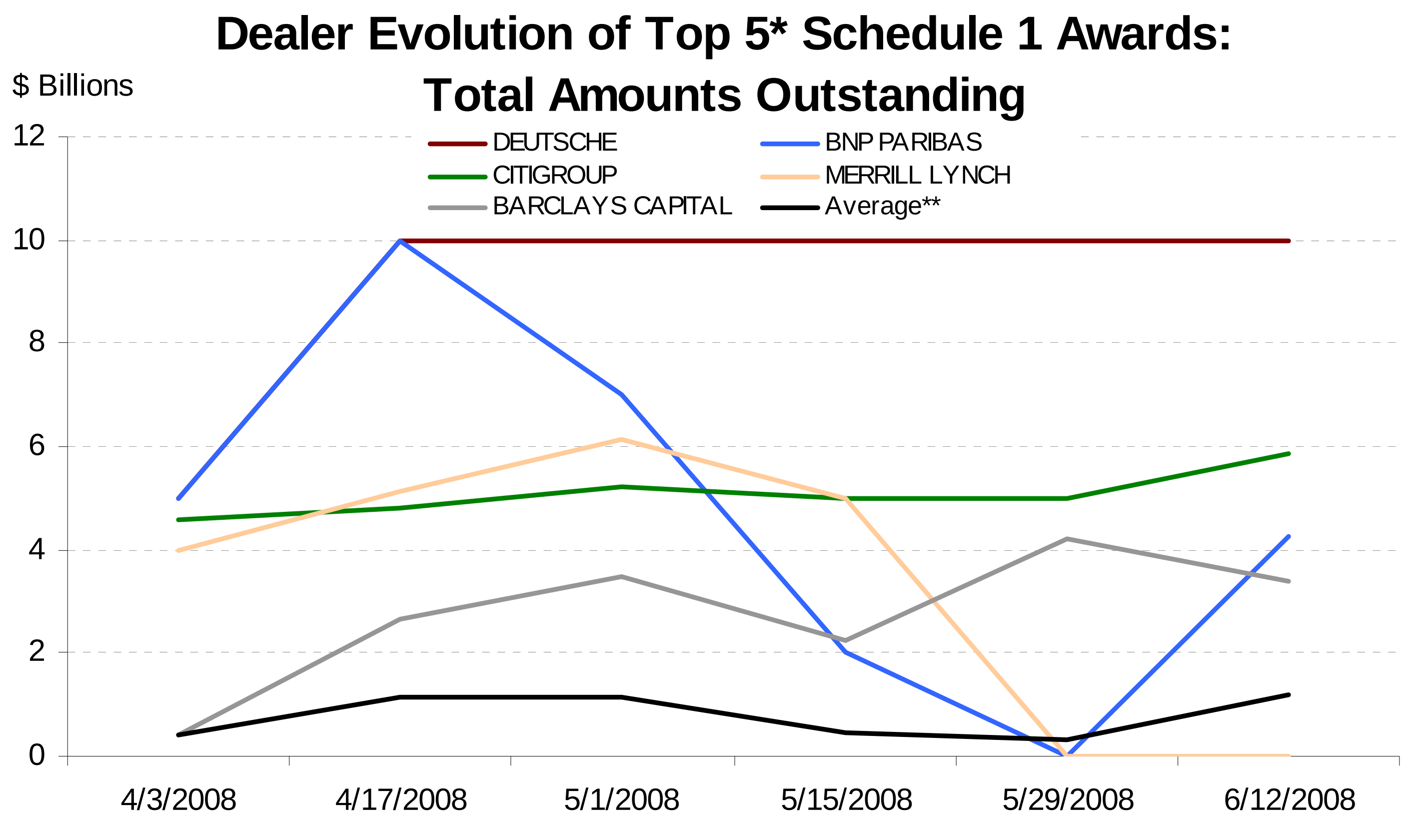
As of dates: 5/22/08 - 6/10/08	**Severity Assumption**
UNSECURED FUNDING - Percent not rolling	
Total Unsecured Funding	100%
SECURED FUNDING - Percent not rolling	
Fixed Income Finance	
OMO Eligible	0%
Liquid	20%
Less Liquid	50%
Illiquid	100%
Equity Finance	
Liquid	20%
Less Liquid	50%
ON-BOARDING AND OTHER COMMITMENTS	
Off-Balance Sheet Assets On-Boarded	Institution Specific
Loan Commitments/Other Contractual Uses	Institution Specific
Other Liabilities/Commitments	Institution Specific
OPERATING CASH FLOWS	
Prime Brokerage, Withdrawal of Free Credits	50%
Customer Shorts with Liquidity Risk	11%
Release of Lockup Cash Flows	90% - 100%
Collateral and Margin Calls: Payments / Receipts	100% / 90%
Derivatives / Margin Mismatches: Payments / Receipts	100% / 90%
ADDITIONAL FUNDING	
Affiliated Banks / Unaffiliated Bank Lines / Other	Institution Specific

- Iterate with the 4 firms
- Current scenario:
  - Severe stress but short of full Bear Stearns scenario
  - 30 day liquidity horizon
  - NO access to the PDCF
- Compare and converge assumptions
- Construct cash flow analysis
- Relate cash needs under stress to available liquidity (liquidity pool + additional funding sources)

PDCF Usage

- Bear Stearns has been by far the largest and most regular borrower
- Until very recently, there were 3 other “chronic” users
  - Cantor Fitzgerald
  - Countrywide Securities
  - Barclays Capital

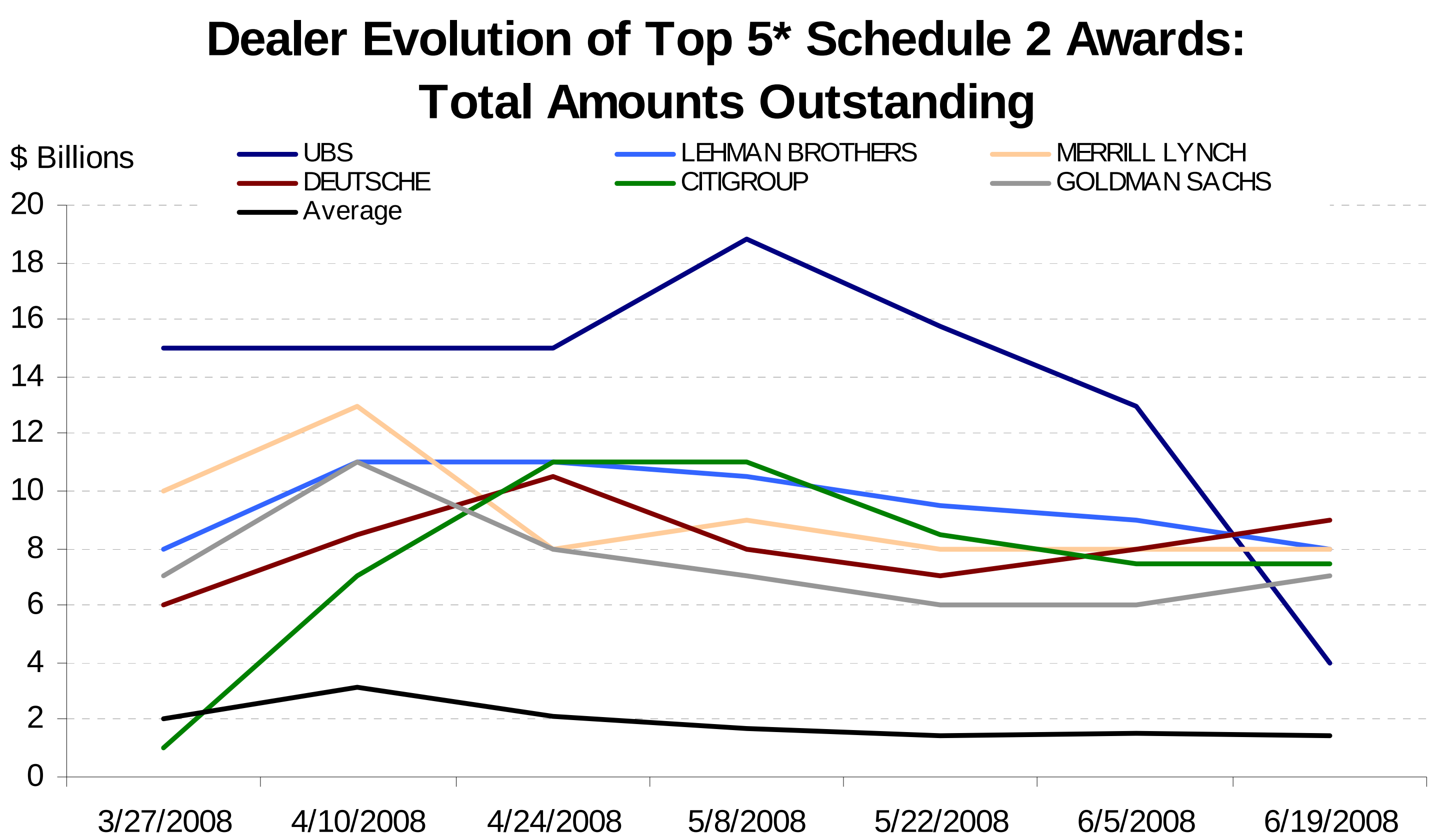
TSLF Usage – Schedule 1



*Based on total Schedule 1 TSLF awards

**Excludes top 5

TSLF Usage – Schedule 2



*Based on total Schedule 2 TSLF awards; Citigroup and Goldman are tied for fifth
**Excludes top 5

Near-Term Issues

- For how much longer should our monitoring program continue with its current focus in its current form?
- How do we limit the reputational risk to the Federal Reserve that increases with the length of our on-site presence at the investment banks?
- If our monitoring program needs to evolve, in which areas should we alter the depth and/or breadth of our activities?

Primary Dealers					
	(in billions of dollars)				
	Total Assets[1]			Regulators	
Dealer	Legal Entity (1)	Consolidated (2)	Tri-party Repo Collateral[2] (3)	Legal Entity (4)	Consolidated (5)
1. Goldman Sachs	705	1,189	117	SEC	CSE/SEC
2. Deutsche Bank Securities	574	3,642	366	SEC	FHC/FRS
3. Morgan Stanley	568	1,091	129	SEC	CSE/SEC
4. Lehman Brothers	488	786	147	SEC	CSE/SEC
5. UBS Securities	458	2,244	159	SEC	FHC/FRS
6. Barclays Capital	439	2,451[3]	237	SEC	FHC/FRS
7. Citigroup Global Markets	354	2,200	154	SEC	FHC/FRS
8. Credit Suisse Securities	336	1,215	170	SEC	FHC/FRS
9. JP Morgan Securities	280	1,643	90	SEC	FHC/FRS
10. Banc of America Securities	272	1,737	311	SEC	FHC/FRS
11. BNP Paribas Securities	245	2,496	102	SEC	FHC/FRS
12. Merrill Lynch Govt Securities	170	1,042	141	Treasury/SEC	CSE/SEC
13. Greenwich Capital Mkts	150	3,795[3]	58	SEC	FHC/FRS
14. Bear Stearns	131	399	20	SEC	CSE/SEC
15. HSBC Securities USA	75	2,354[3]	34	SEC	FHC/FRS
16. Dresdner Kleinwort Wasserstein Securities	62	1,780	14	SEC	FHC/FRS
17. Cantor Fitzgerald	31	29[3]	NA	SEC	None
18. Daiwa Securities America	29	174	5	SEC	Japan FSA
19. Countrywide Securities	24	199	12	SEC	THC/OTS
20. Mizuho Securities USA	23	1,374[3]	12	SEC	FHC/FRS

[1] As of Q1 2008, except where noted.
[2] Average for May 27 through June 6. In some cases includes collateral financed by affiliates of the primary dealer.
[3] Q4 2007.

Liquidity Facilities and the Prudential Supervision of Investment Banks[1] and Other Primary Dealers
Key Issues for Discussion

Liquidity Facilities

1. When and under what circumstances should we decide to extend, modify, or eliminate our current credit facilities for primary dealers (PDCF and TSLF)? Should the timing and circumstances differ for the two facilities?

2. If we decide to eliminate one or both credit facilities, how should that be done? How much notice should be provided? Should the terms of credit extension be gradually tightened prior to closing the facility, or should the facility be closed in one step? When notice is given, should we give assurances that the closing of the facilities will be delayed if conditions in financial markets warrant?

3. Should we seek legislation that would permit us to provide some type of liquidity backstop to primary dealers in the longer term? Under what conditions should a primary dealer be permitted to draw on such a backstop? What is the rationale for any such backstop?

Prudential Supervision

1. How do we limit the moral hazard risk that our current credit facilities undermine the incentives for primary dealers and the holding companies that own them to manage liquidity and capital to appropriately conservative levels?
    a. On what principles should supervisory expectations for investment banks' capital, liquidity, and risk management be based? Should these expectations be codified in a formal document? How?
    b. To what liquidity standard should the SEC-regulated investment banks be held? Is it appropriate to expect the firms to maintain liquidity sufficient to withstand a Bear Stearns-type scenario? Should bank-affiliated primary dealers (and their parent companies) be held to the same liquidity standard as investment banks?[2]
    c. Should investment banks be held to the same capital standards as bank holding companies? What about the leverage ratio?

[1] For purposes of this discussion an investment bank is a primary dealer whose consolidated supervisor is the SEC. Of the twenty primary dealers, four (including Bear Stearns) are subsidiaries of investment bank holding companies subject to consolidated supervision by the SEC, thirteen are subsidiaries of Financial Holding Companies (FHCs), one (Countrywide) is a subsidiary of a thrift holding company , and one (Cantor Fitzgerald) is not subject to consolidated supervision.
[2] Under the SEC's program for consolidated supervision, investment banks are required to maintain liquidity pools at the parent company sufficient to meet expected cash outflows in specified stress scenarios. Those scenarios include the loss of access to unsecured funding for an entire year.

2. In the longer term, can we rely on an MOU with the SEC to provide the prudential supervision that is necessary to limit moral hazard? Or is legislation needed to enhance the effectiveness of prudential supervision of primary dealers? Is there a need for legislation only if we provide primary dealers with an ongoing liquidity backstop or is legislation needed even if their access is only in unusual and exigent circumstances?

3. If legislation is needed, what type of legislation? Legislation requiring consolidated supervision of investment banks? By whom? Should the securities laws be amended to provide the SEC with explicit authority to conduct consolidated supervision of investment banks? Should all primary dealers and their affiliates be regulated as FHCs? Are changes to the functional regulation provisions of Gramm-Leach-Bliley needed to make effective consolidated supervision of primary dealers that are part of FHCs?

4. If we provide primary dealers with an ongoing liquidity backstop, do we need to alter the criteria for becoming a primary dealer (which have worked well to define appropriate counterparties for desk transactions) to require a primary dealer and its consolidated organization to be subject to effective prudential supervision?