Appendix 1: Materials used by Mr. Carpenter and Ms. Ezer

Class I FOMC – Restricted Controlled (FR)

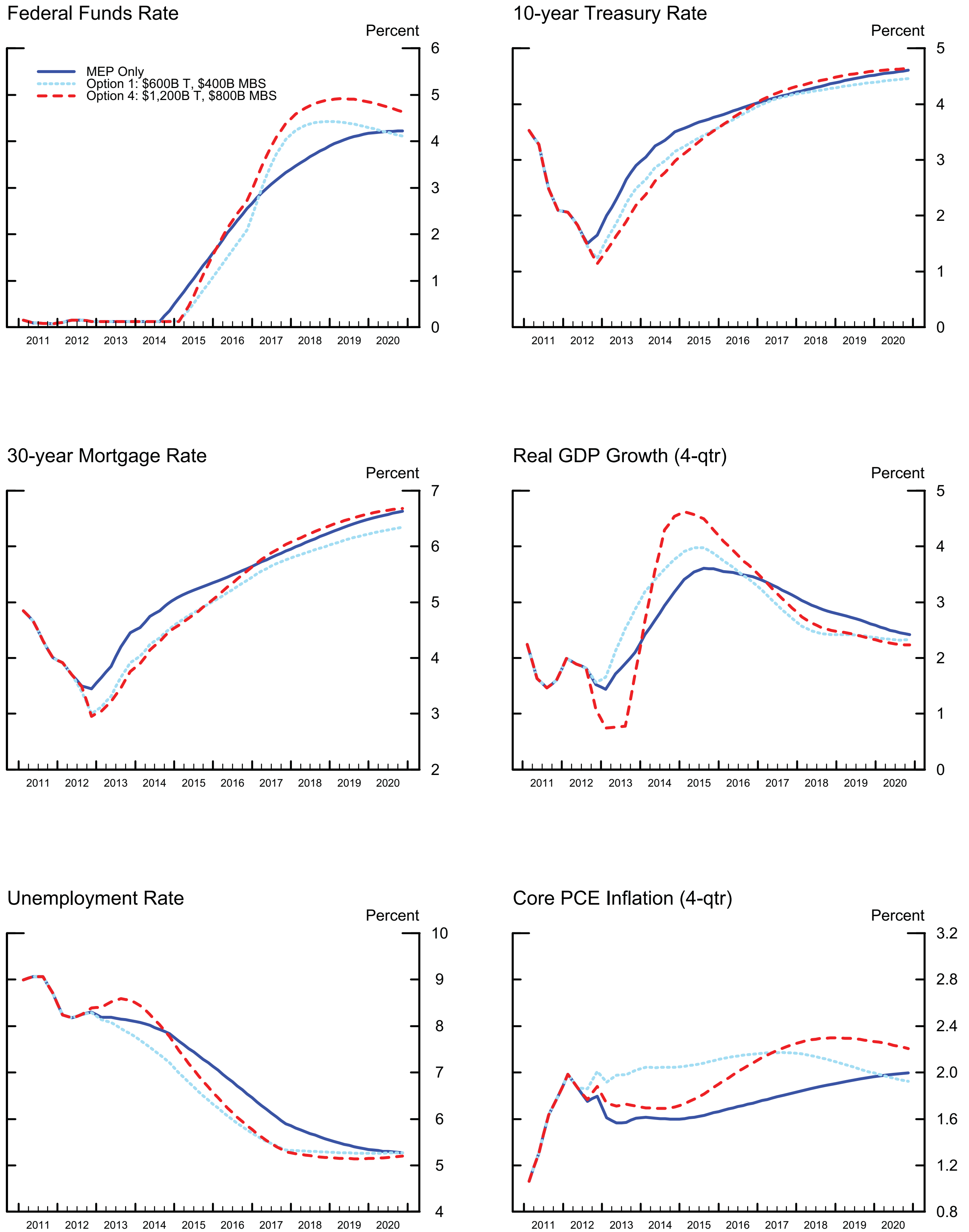
Material for Briefing on

Potential Effects of a Large-Scale Asset-Purchase Program

Seth B. Carpenter
Michelle Ezer
September 12, 2012

Exhibit 1

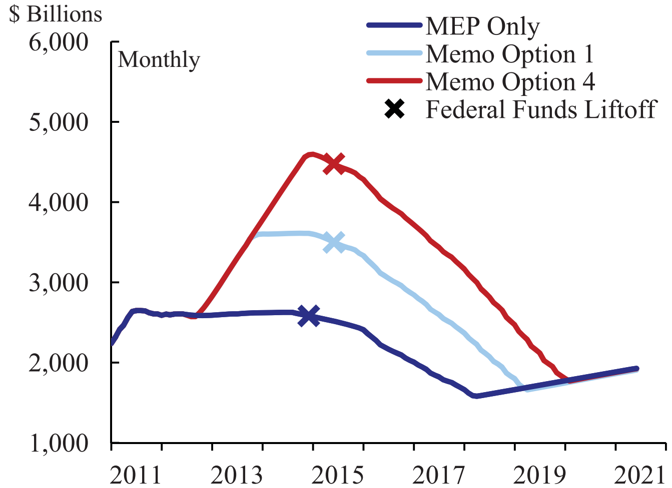
Figure 1
Macroeconomic Effects of Alternative Balance Sheet Policies



Class I FOMC – Restricted Controlled (FR)

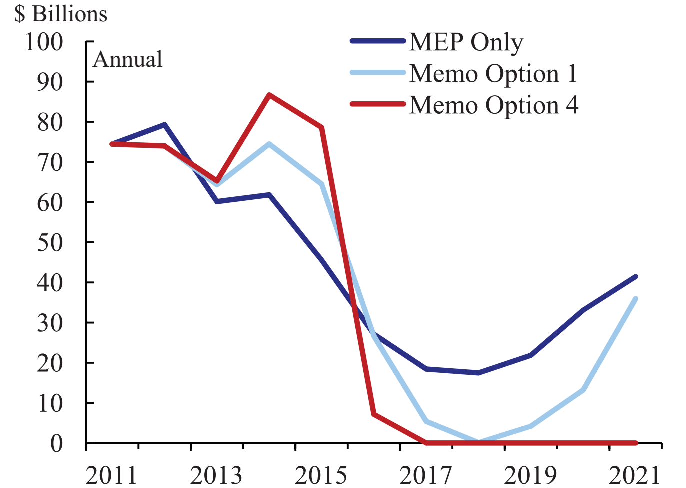
Exhibit 2 (Last)

(1) SOMA Holdings



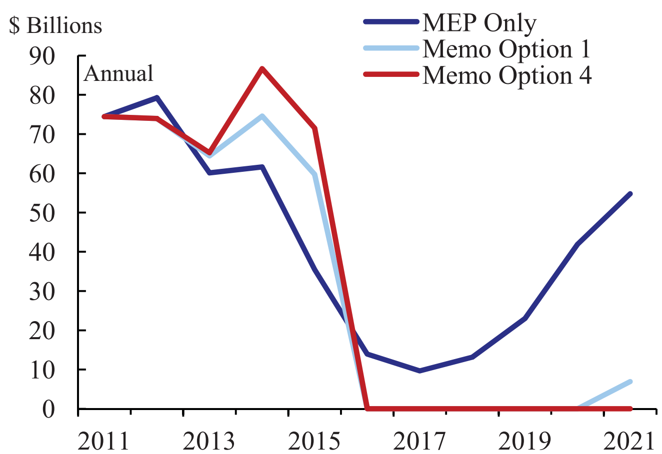
Source: Federal Reserve Bank of New York

(2) Remittances to Treasury



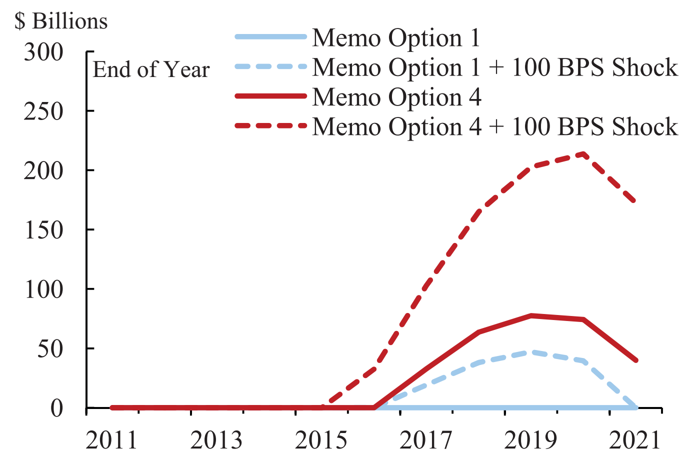
Source: Federal Reserve Bank of New York

(3) Remittances to Treasury Under 100 BPS Interest Rate Shock Scenario



Source: Federal Reserve Bank of New York

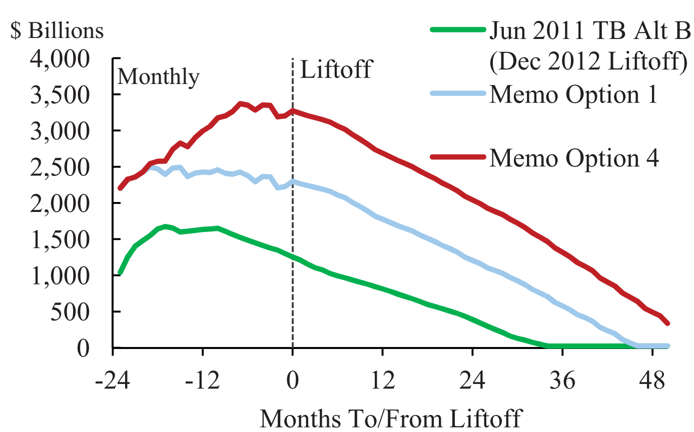
(4) Deferred Asset*



*No deferred asset projected under MEP-only scenario.

Source: Federal Reserve Bank of New York

(5) Reserve Balances Around Fed Funds Liftoff*



*$25 billion in reserves assumed under steady state.

Source: Federal Reserve Board of Governors, Federal Reserve Bank of New York

Appendix 2: Materials used by Mr. Potter

Class II FOMC - Restricted (FR)

Material for

FOMC Presentation:
Financial Market Developments and Desk Operations

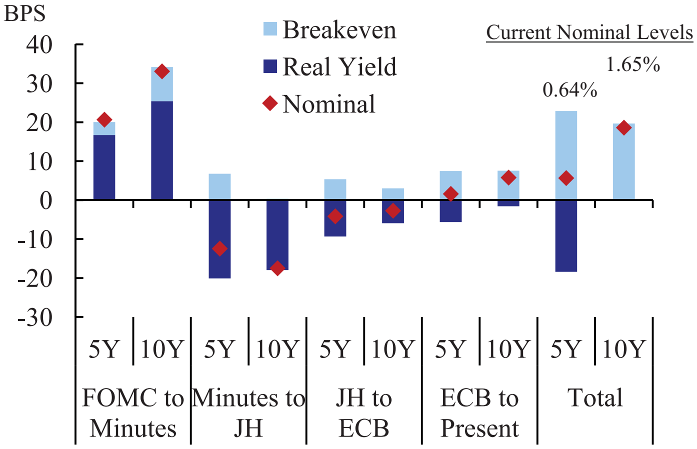
Simon Potter

September 12, 2012

Class II FOMC – Restricted (FR)

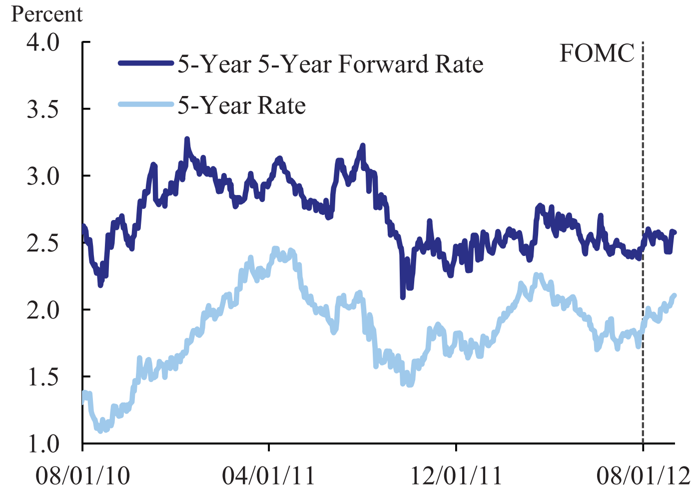
Exhibit 1

(1) Decomposition of Change in Nominal Treasury Yields over Intermeeting Period



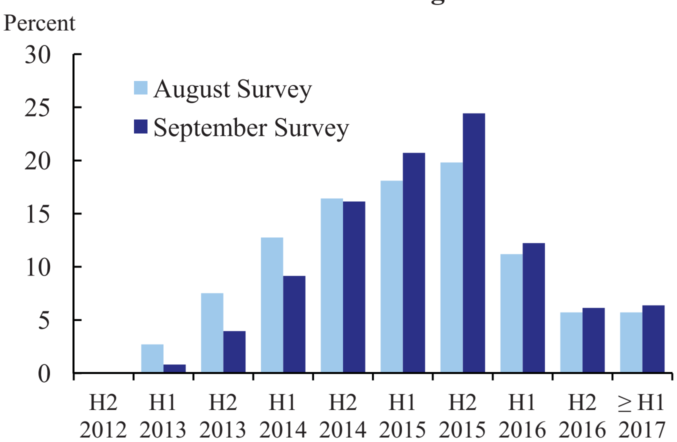
Source: Bloomberg

(2) Breakeven Inflation Rates



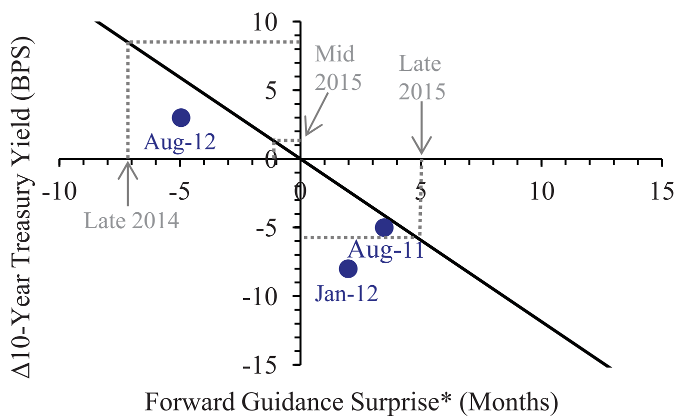
Source: Federal Reserve Board of Governors

(3) Probability Distribution of First Increase in Federal Funds Target Rate*



*Average probabilities from dealer responses.
Source: Federal Reserve Bank of New York Survey

(4) Changes in 10-Year Treasury Yields on Survey-Based Forward Guidance Surprises

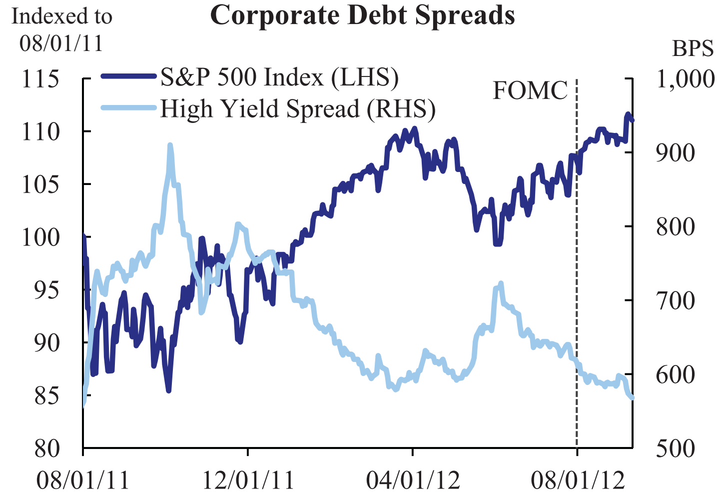


*Surprise calculated as actual announced forward guidance less dealer survey implied date of first tightening before meeting.
Source: Federal Reserve Bank of New York, Bloomberg

(5) MBS Option-Adjusted Spread to Treasury*

*FNMA 30-year current coupon OAS to Treasury.
Source: Barclays

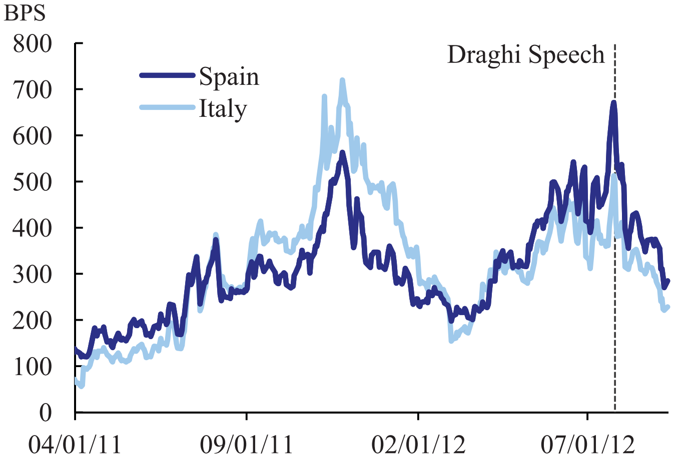
(6) Equity Prices and Corporate Debt Spreads



Source: Bloomberg, Bank of America-Merrill Lynch

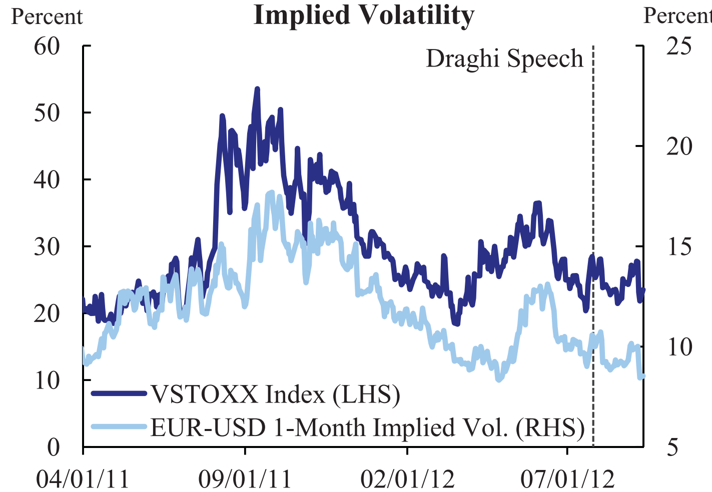
Class II FOMC – Restricted (FR) Exhibit 2

(7) Euro Area Sovereign Debt Spreads*



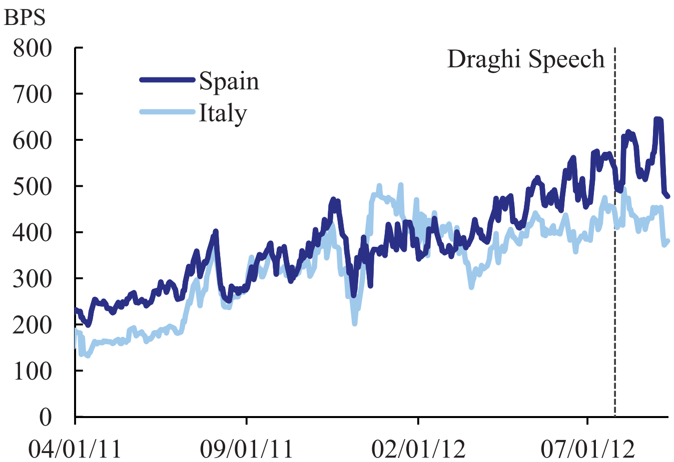
*2-year spreads to Germany.
Source: Bloomberg

(8) Euro Area Equity and Currency Implied Volatility



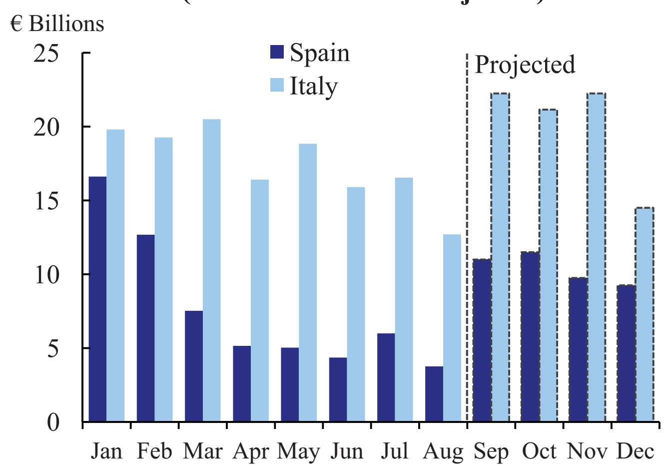
Source: Bloomberg

(9) Euro Area Forward Rate Spreads*



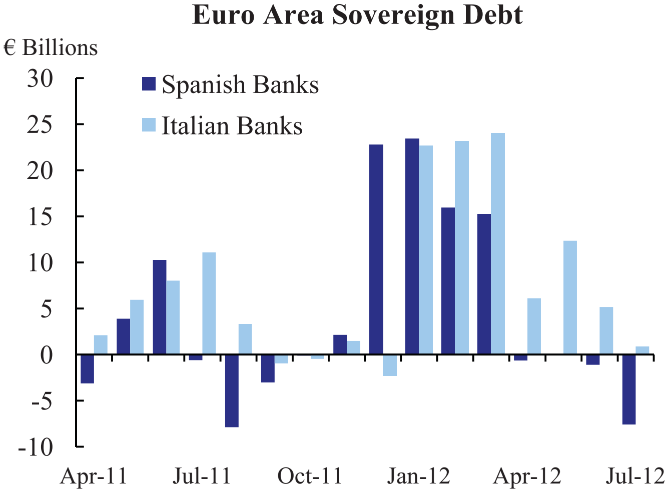
*5-year, 5-year forward rate spreads to Germany.
Source: Bloomberg

(10) Euro Area Sovereign Bond Issuance (Year-to-Date and Projected)



Source: Spanish Treasury, Italian Treasury, Intesa Sanpaolo, RBS

(11) Monthly Changes in Bank Holdings of Euro Area Sovereign Debt



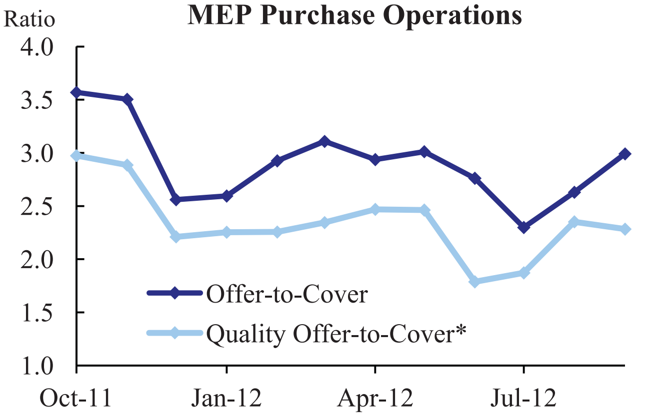
Source: ECB

(12) Equity Prices

Source: Bloomberg

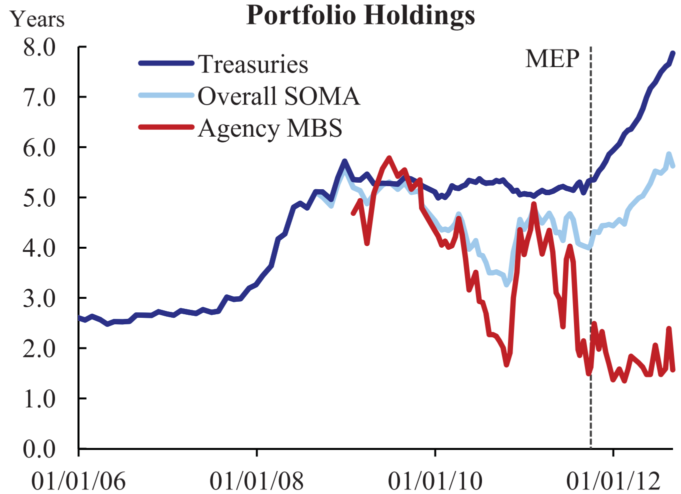
Class II FOMC – Restricted (FR) Exhibit 3 (Last)

(13) Median Monthly Coverage Ratios for MEP Purchase Operations



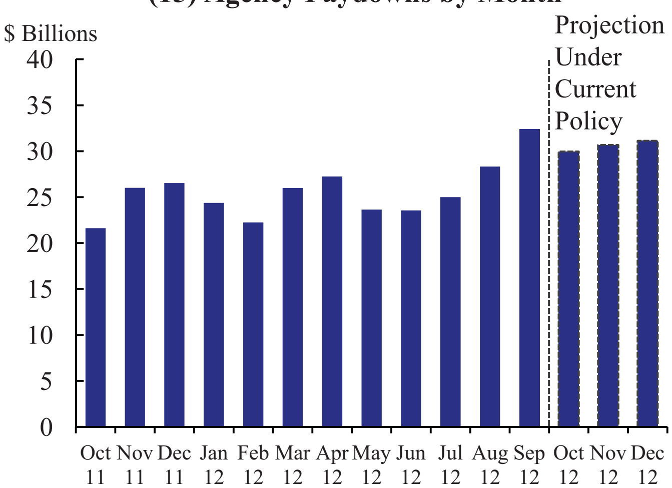
*Quality propositions are those classified in FRBNY's favorable-to-market bucket, which generally includes offers up to 3 to 6 ticks above market depending on sector.
Source: Federal Reserve Bank of New York

(14) Average Duration of SOMA Portfolio Holdings



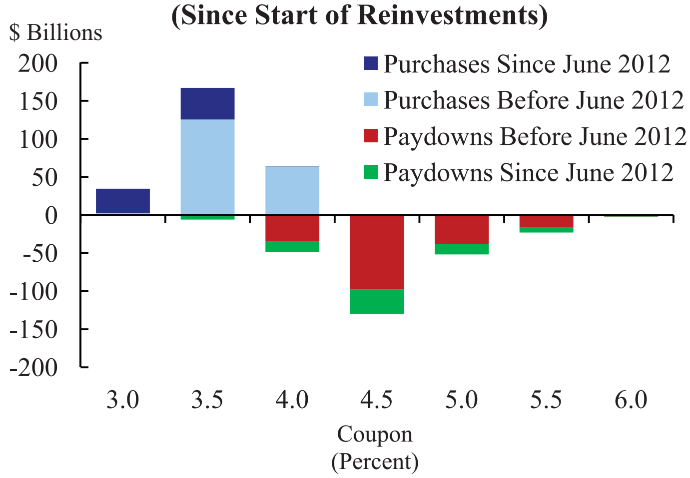
Source: Federal Reserve Bank of New York

(15) Agency Paydowns by Month*



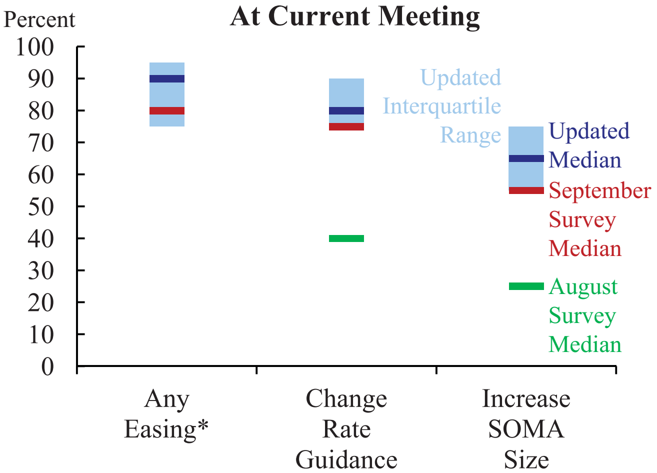
*Includes both agency debt and agency MBS.
Source: Federal Reserve Bank of New York

(16) MBS Purchases and Principal Paydowns* (Since Start of Reinvestments)



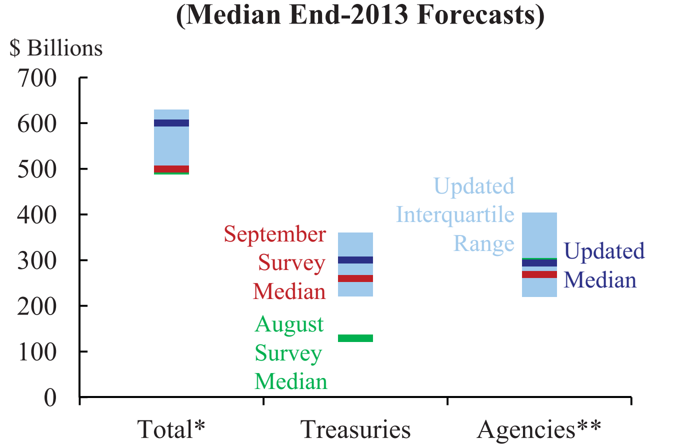
*30-year MBS only.
Source: Federal Reserve Bank of New York

(17) Probability of Additional Policy Actions At Current Meeting



*"Any Easing" added to most recent survey.
Source: Federal Reserve Bank of New York Survey

(18) Increase in SOMA Portfolio Holdings (Median End-2013 Forecasts)



*August total value is $496 billion and overlapped by September median.
**August agencies value is $297 billion and overlapped by updated median.
Source: Federal Reserve Bank of New York Survey

Appendix 3: Materials used by Mr. Wilcox

Class II FOMC – Restricted (FR)

Material for

Forecast Summary

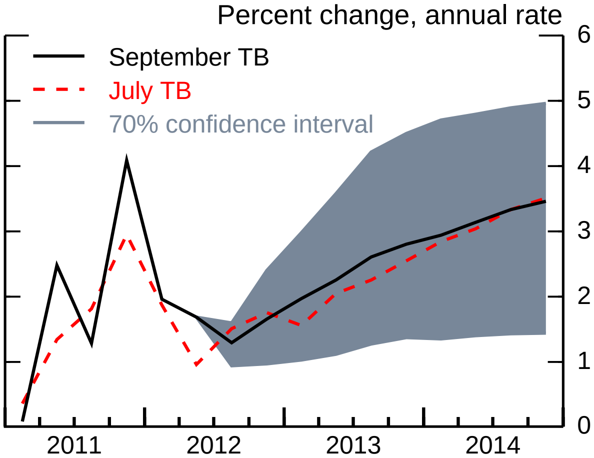
David Wilcox

September 12, 2012

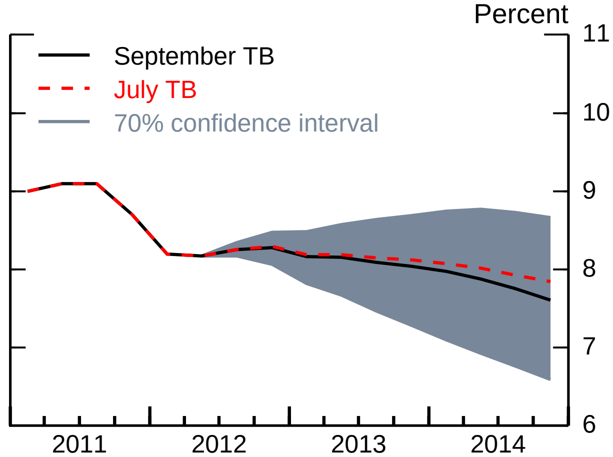
Forecast Summary

Confidence Intervals Based on Tealbook Track Record

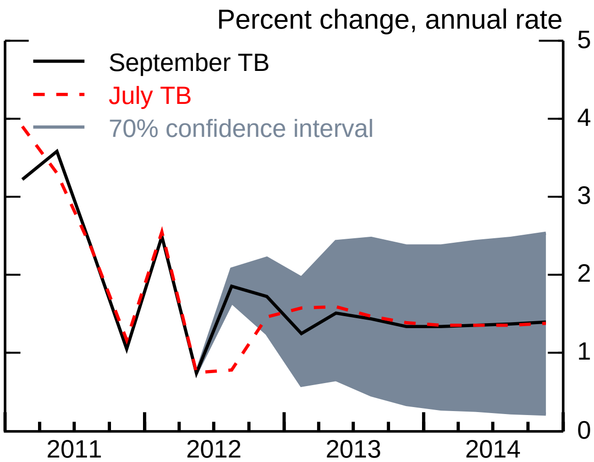
Real GDP



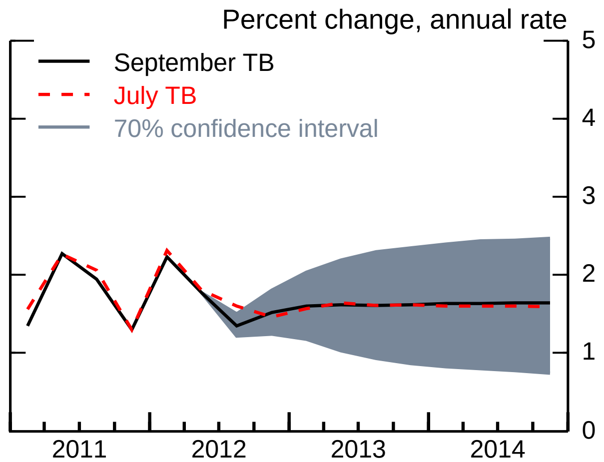
Unemployment Rate



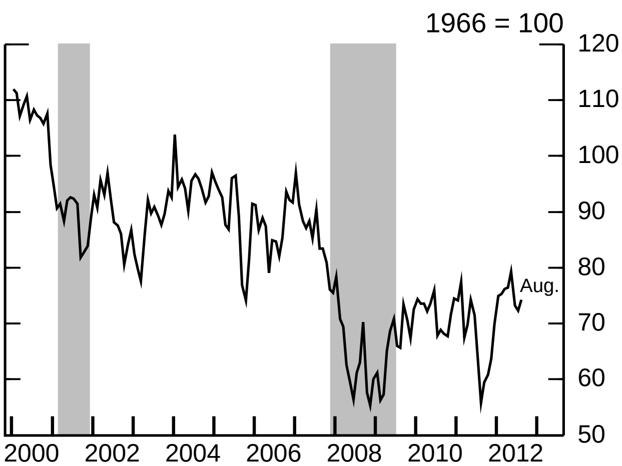
PCE Prices



PCE Prices Excluding Food and Energy

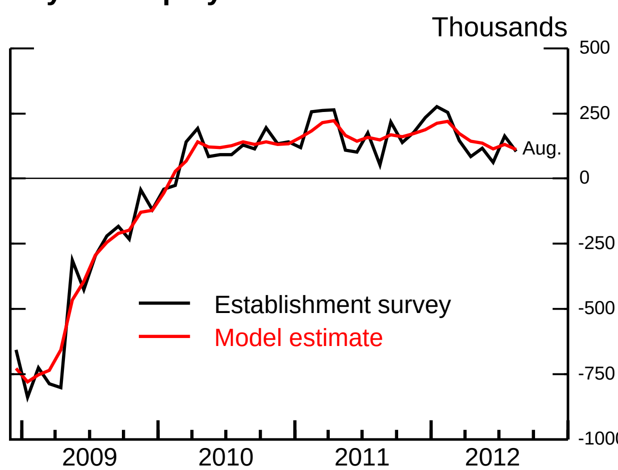


Consumer Sentiment



Source: Thomas Reuters/University of Michigan Surveys of Consumers.

Measures of Monthly Change in Private Payroll Employment



Note: Model estimate combines signal from household survey measure (not shown) and establishment survey measure.

Appendix 4: Materials used by Mr. Lehnert

Class II FOMC – Restricted (FR)

Material for Briefing on

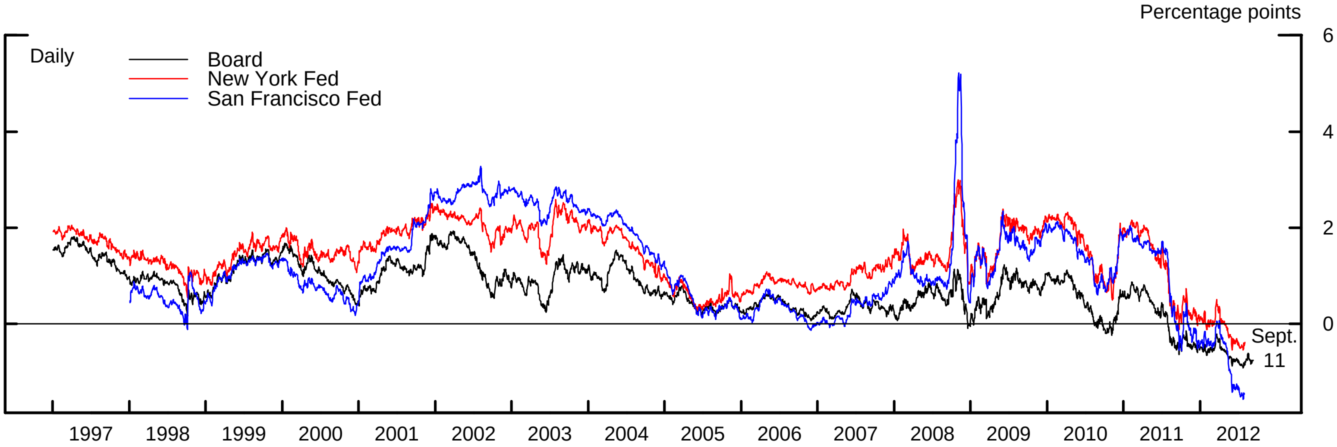
Financial Stability

Andreas Lehnert
September 12, 2012

Exhibit 1

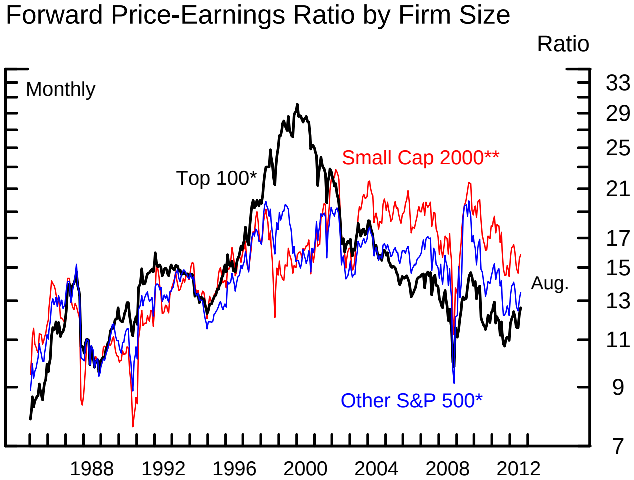
Evidence on Asset Valuations

Ten-Year Nominal Term Premium Estimates



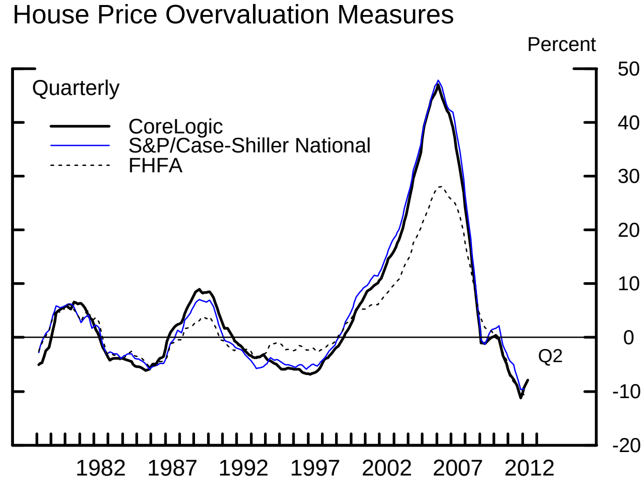
Note: Term premia are estimated by a three-factor term structure model combining Treasury yields with SPF interest rate forecasts (Board), a five-factor term structure model using Treasury yields only (New York Fed), and a three-factor model using Treasury yields only (San Francisco Fed).

Forward Price-Earnings Ratio by Firm Size



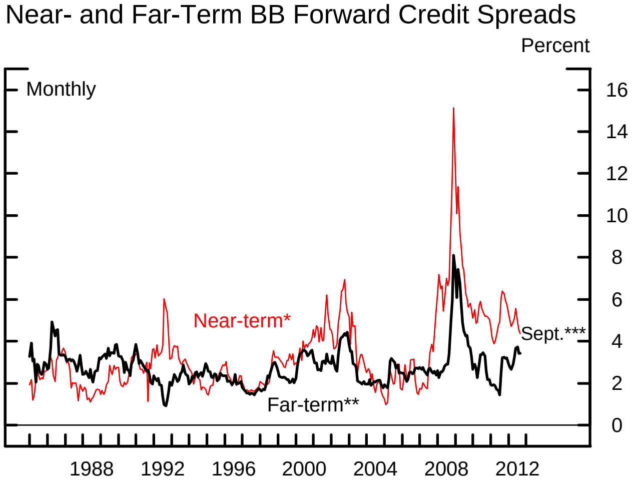
Note: Based on expected earnings for twelve months ahead.
* Aggregate forward price-earnings ratio for the 100 largest firms (or the remaining 400 firms) in the S&P 500, with firms ranked by market cap.
** Median price-earnings ratio among firms approximating Russell 2000.
Source: Thomson Financial.

House Price Overvaluation Measures



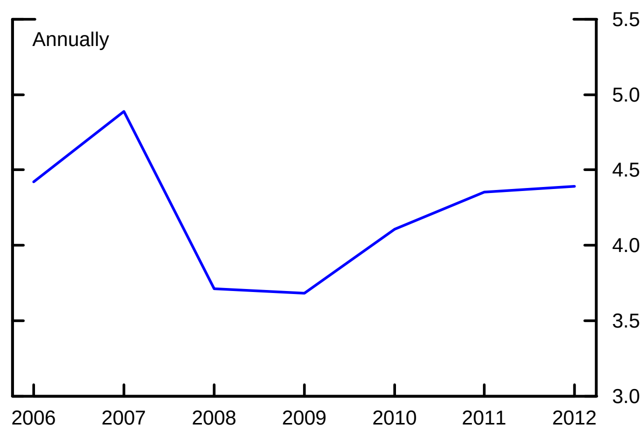
Note: Overvaluation measured as deviation from long-run relationship between house prices and rents.

Near- and Far-Term BB Forward Credit Spreads



* Near-term spread between years two and three.
** Far-term spread between years nine and ten.
*** Reflects latest daily observation as of September 11, 2012
Source: Staff estimates.

Average Debt Multiples of Highly Leveraged Loans

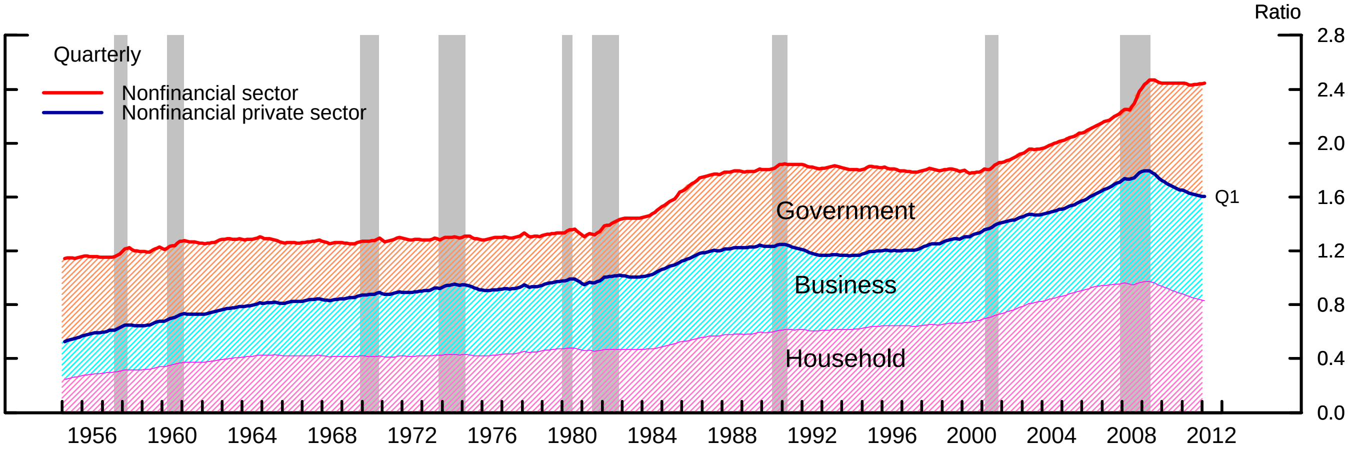


Note: Highly leveraged loans are those rated BB+ or lower or those with spreads to LIBOR of more than 200 basis points. Data for 2012 is a seven-month average.
Source: S&P LPC

Exhibit 2

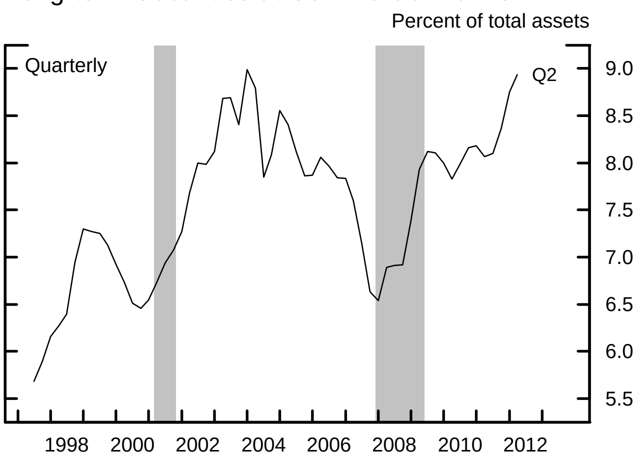
Evidence on Leverage and Risk-Taking

Nonfinancial Sector Credit-to-GDP Ratio



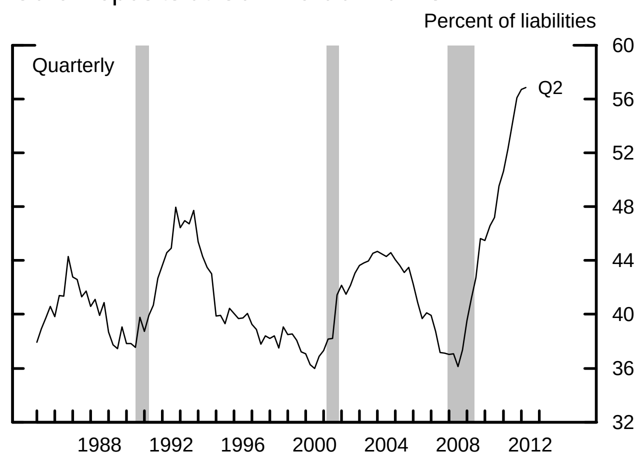
Source: FOFA and NIPA.

Long-term Securities at Commercial Banks



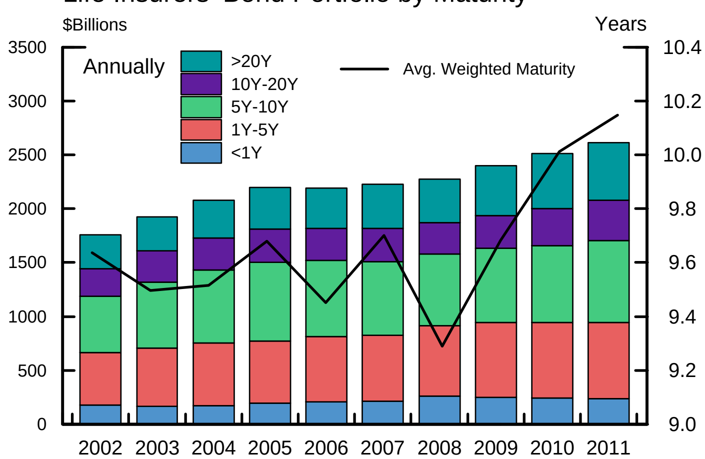
Note: Long-term securities include all securities with a remaining maturity or next repricing date of five years or more.
Source: Call report form FFIEC 031 and 041.

Core Deposits at Commercial Banks



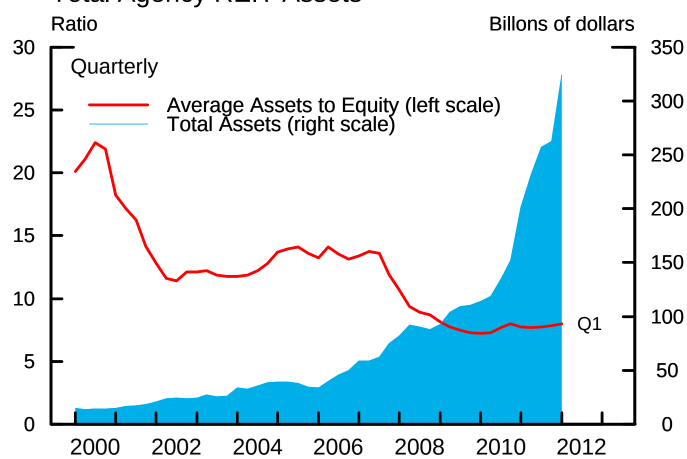
Source: Commercial bank call report, H.15.

Life Insurers' Bond Portfolio by Maturity



Notes: Figure reports carrying value of all bonds held in the general account. Average maturity is calculated using the midpoint of the maturity ranges reported and weighting by carrying value.
Source: SNL Financial, authors calculations

Total Agency REIT Assets



Source: Bloomberg.

Appendix 5: Materials used by Mr. Nelson

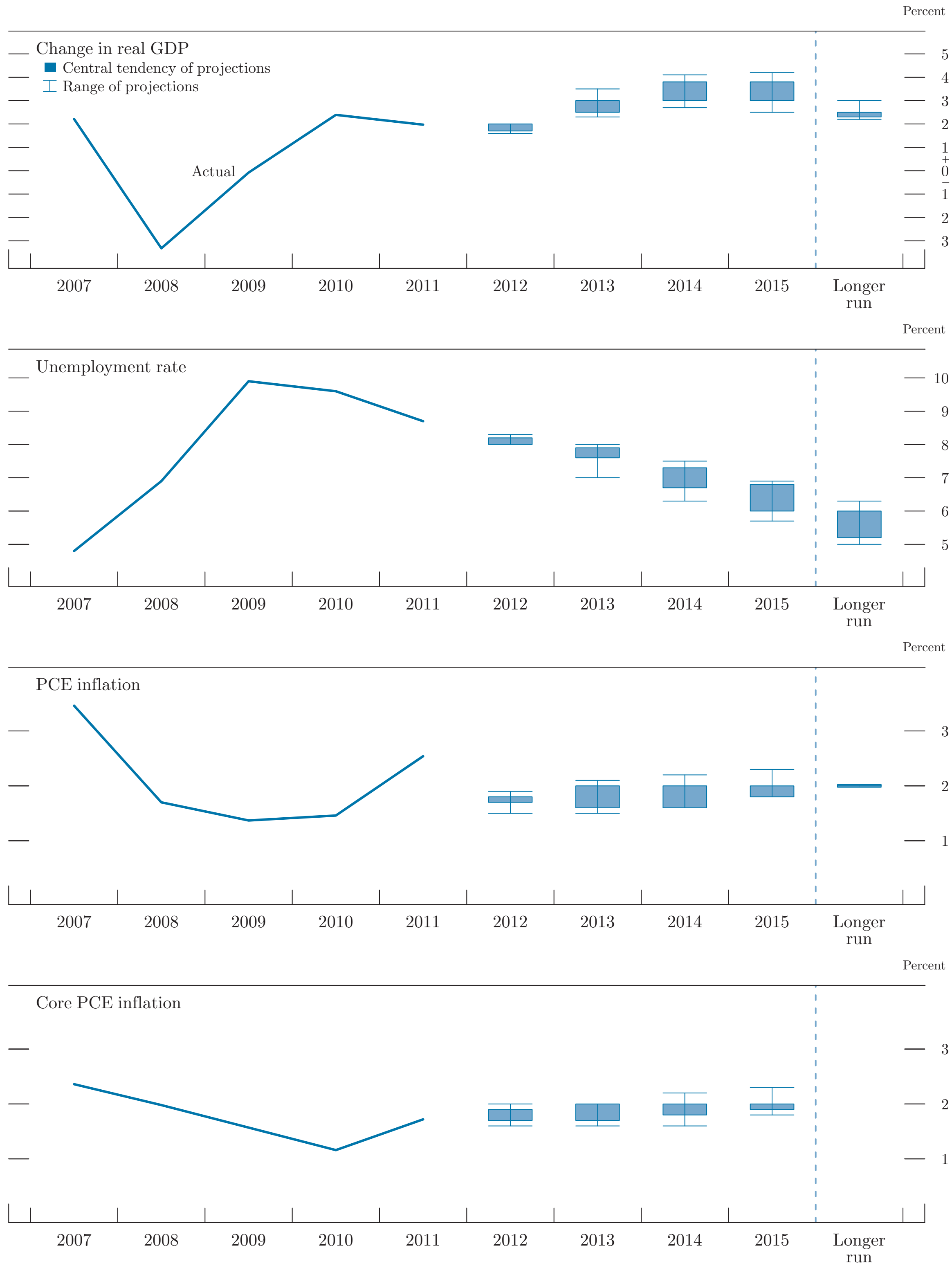
Material for Briefing on the

Summary of Economic Projections

Ed Nelson

September 12, 2012

Exhibit 1. Central tendencies and ranges of economic projections, 2012–15 and over the longer run



Note: The data for the actual values of the variables are annual.

Exhibit 2. Economic projections for 2013-2015 and over the longer run (percent)

Change in real GDP

	2013	2014	2015	Longer run
Central Tendency	2.5 to 3.0	3.0 to 3.8	3.0 to 3.8	2.3 to 2.5
June projections	*2.2 to 2.8*	*3.0 to 3.5*	---	*2.3 to 2.5*
Range	2.3 to 3.5	2.7 to 4.1	2.5 to 4.2	2.2 to 3.0
June projections	*2.2 to 3.5*	*2.8 to 4.0*	---	*2.2 to 3.0*
Memo: Tealbook	2.4	3.2	3.6	2.5
June Tealbook	*2.2*	*3.1*	---	*2.5*

Unemployment rate

	2013	2014	2015	Longer run
Central Tendency	7.6 to 7.9	6.7 to 7.3	6.0 to 6.8	5.2 to 6.0
June projections	*7.5 to 8.0*	*7.0 to 7.7*	---	*5.2 to 6.0*
Range	7.0 to 8.0	6.3 to 7.5	5.7 to 6.9	5.0 to 6.3
June projections	*7.0 to 8.1*	*6.3 to 7.7*	---	*4.9 to 6.3*
Memo: Tealbook	8.0	7.6	6.7	5.2
June Tealbook	*8.0*	*7.7*	---	*5.2*

PCE inflation

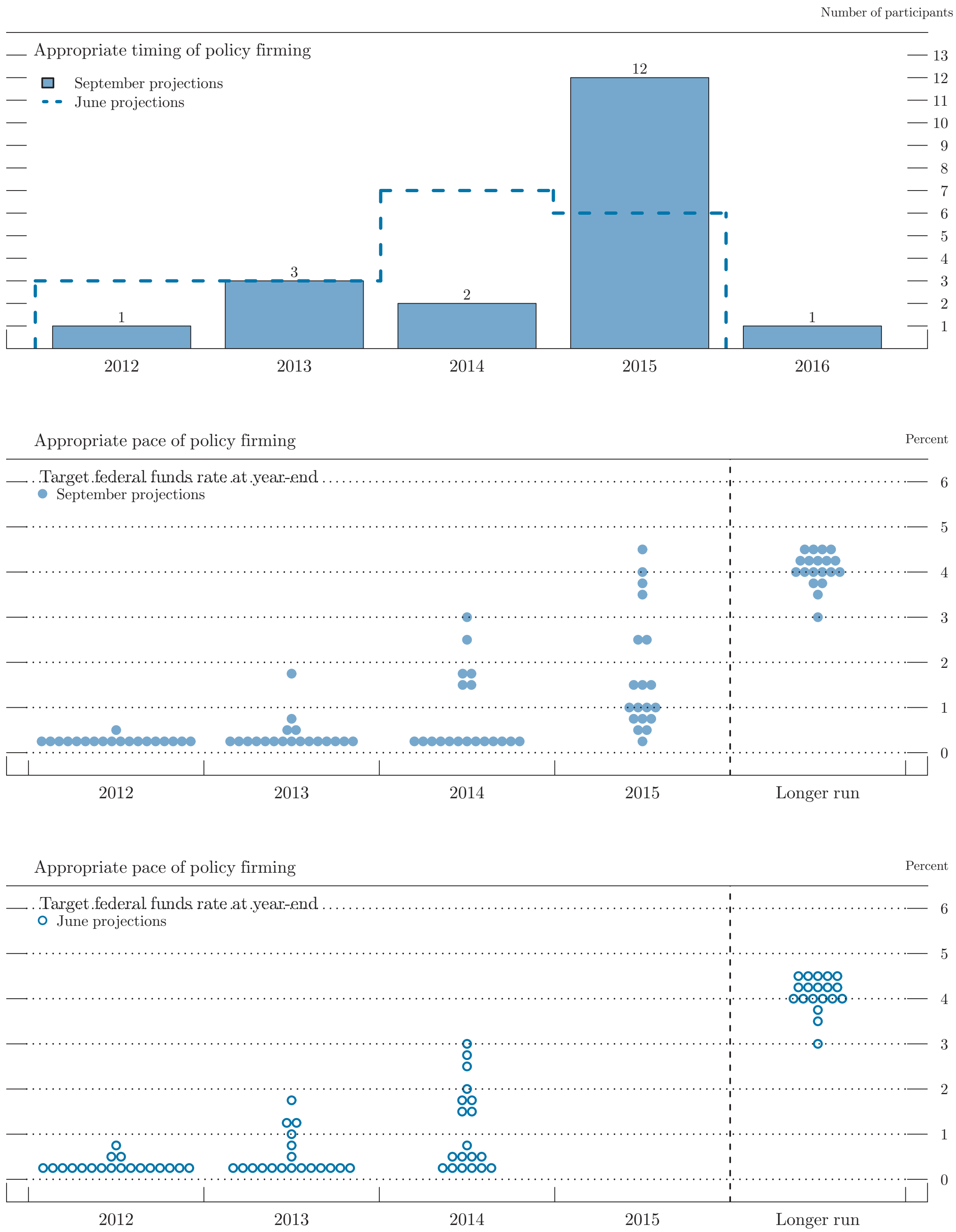
	2013	2014	2015	Longer run
Central Tendency	1.6 to 2.0	1.6 to 2.0	1.8 to 2.0	2.0
June projections	*1.5 to 2.0*	*1.5 to 2.0*	---	*2.0*
Range	1.5 to 2.1	1.6 to 2.2	1.8 to 2.3	2.0
June projections	*1.5 to 2.1*	*1.5 to 2.2*	---	*2.0*
Memo: Tealbook	1.4	1.4	1.5	2.0
June Tealbook	*1.5*	*1.5*	---	*2.0*

Core PCE inflation

	2013	2014	2015
Central Tendency	1.7 to 2.0	1.8 to 2.0	1.9 to 2.0
June projections	*1.6 to 2.0*	*1.6 to 2.0*	---
Range	1.6 to 2.0	1.6 to 2.2	1.8 to 2.3
June projections	*1.4 to 2.1*	*1.5 to 2.2*	---
Memo: Tealbook	1.6	1.6	1.7
June Tealbook	*1.6*	*1.6*	---

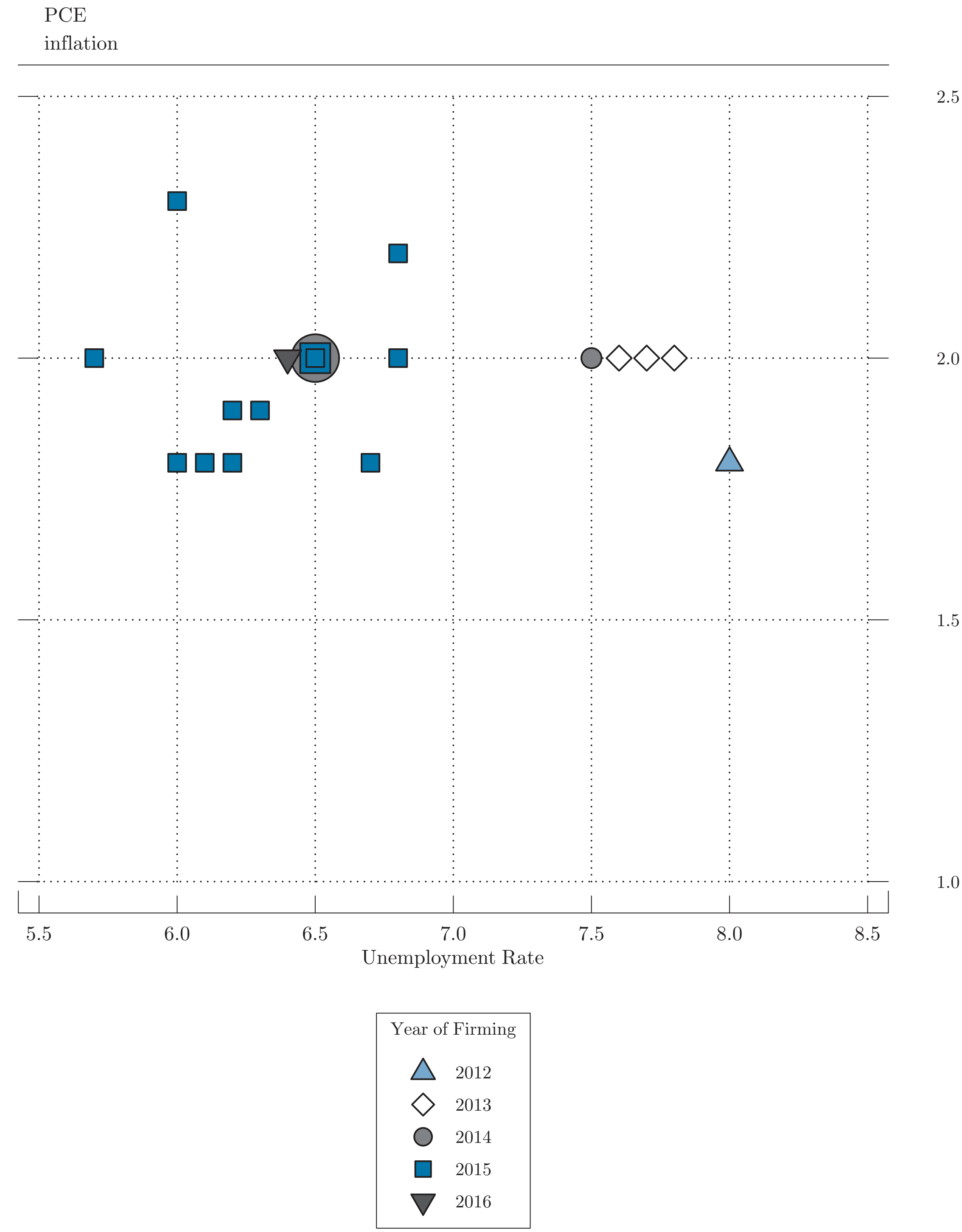
NOTE: The changes in real GDP and inflation are measured Q4/Q4.

Exhibit 3. Overview of FOMC participants' assessments of appropriate monetary policy



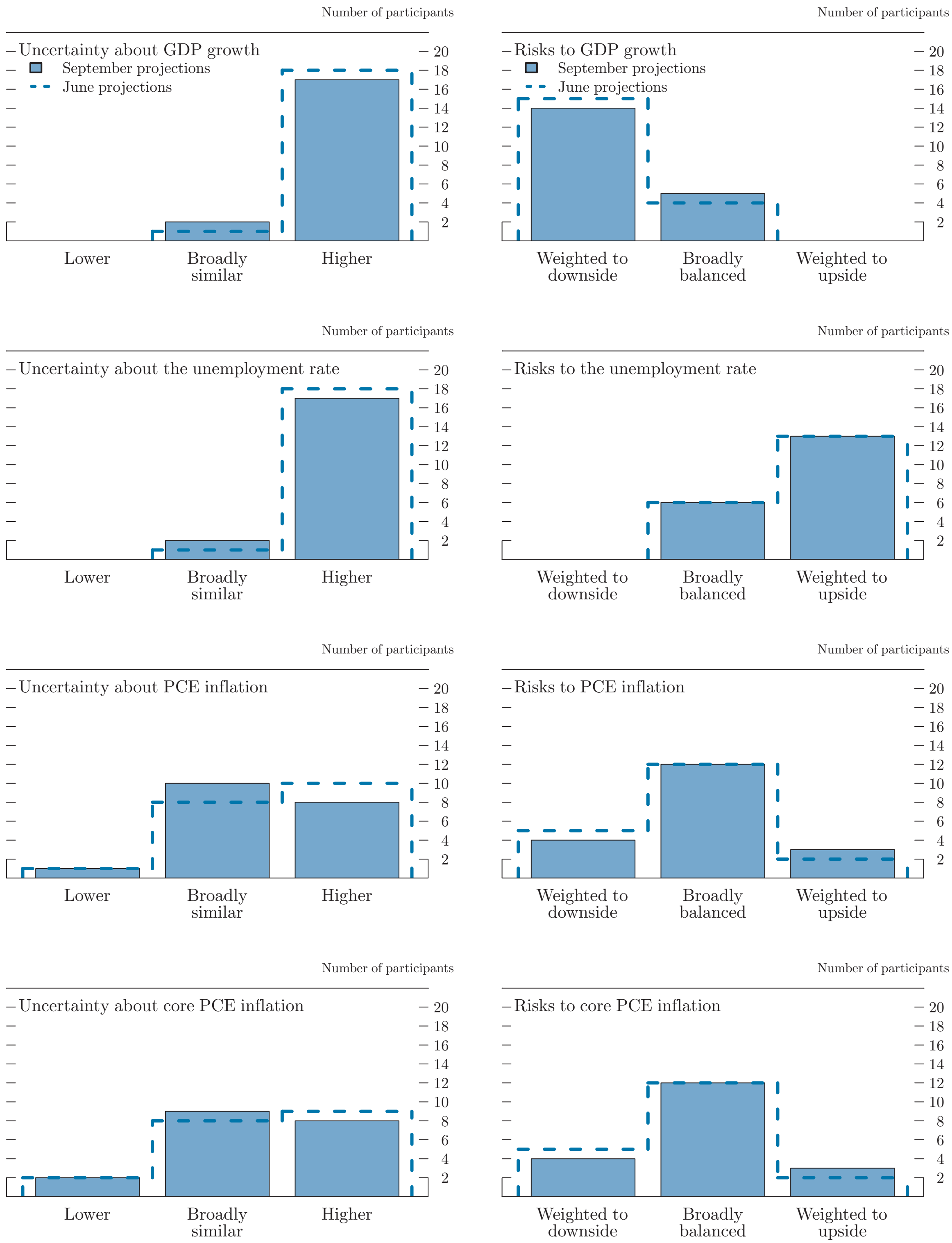
Note: In the upper panel, the height of each bar denotes the number of FOMC participants who judge that, under appropriate monetary policy, the first increase in the target federal funds rate from its current range of 0 to 1/4 percent will occur in the specified calendar year. In the middle and lower panels, each circle indicates the value (rounded to the nearest 1/4 percentage point) of an individual participant's judgment of the appropriate level of the target federal funds rate at the end of the specified calendar year or over the longer run.

Exhibit 4. Scatterplot of unemployment and PCE inflation rates in the initial year of policy firming (in percent)



NOTE: When the projections of two or more participants are identical, larger markers, which represent one participant each, are used so that each projection can be seen.

Exhibit 5. Uncertainty and risks in economic projections



Appendix 6: Materials used by Chairman Bernanke

Class I FOMC – Restricted Controlled (FR)

Material for

The Consensus Forecast Exercise

September 12–13, 2012

Table 1. Final Proposal for the September Experimental Consensus Forecast, Conditioned on No Additional Asset Purchases or Changes in Forward Guidance

	2012 H1	2012 H2	2012	2013	2014	2015	Longer Run
	AR change, %		---------*Q4-over-Q4 percent change*---------				
Real GDP							
Proposed consensus forecast	**1.8**	**1.6**	**1.7**	**2.2**	**3.3**	**3.4**	**2.5**
July/August consensus	1.7	2.0	1.8	2.5	3.2		2.5
September Tealbook	1.8	1.5	1.6	2.4	3.2	3.6	2.5
Total PCE prices							
Proposed consensus forecast	**1.6**	**2.0**	**1.8**	**1.6**	**1.6**	**1.7**	**2.0**
July/August consensus	1.6	1.6	1.6	1.8	1.8		2.0
September Tealbook	1.6	1.8	1.7	1.4	1.4	1.5	2.0
Core PCE prices							
Proposed consensus forecast	**2.0**	**1.6**	**1.8**	**1.7**	**1.7**	**1.8**	
July/August consensus	2.0	1.7	1.8	1.8	1.8		
September Tealbook	2.0	1.4	1.7	1.6	1.6	1.7	
Unemployment rate[1]							
Proposed consensus forecast	**8.2**	**8.2**	**8.2**	**8.0**	**7.6**	**6.8**	**5.4**
July/August consensus	8.2	8.2	8.2	7.9	7.6		5.5
September Tealbook	8.2	8.3	8.3	8.0	7.6	6.7	5.2
Federal funds rate[2]							
Proposed consensus forecast	**0.1**	**0.1**	**0.1**	**0.1**	**0.5**	**1.7**	**4.0**
July/August consensus	0.1	0.1	0.1	0.1	0.5		4.0
September Tealbook	0.1	0.1	0.1	0.1	0.8	2.3	4.3

1. Level in final quarter of period indicated. 2. Level at end of period indicated.

Table 2. Median Forecasts in the September SEP

	2012 H1	2012 H2	2012	2013	2014	2015	Longer Run
	AR change, %		*-------Q4-over-Q4 percent change-------*				
Real GDP							
All participants	1.8	1.8	1.8	2.7	3.2	3.5	2.5
Participants assuming further easing[1]	1.8	1.6	1.7	2.7	3.6	3.5	2.5
Total PCE prices							
All participants	1.6	2.0	1.8	1.8	2.0	2.0	2.0
Participants assuming further easing[1]	1.6	2.0	1.8	1.7	1.8	1.9	2.0
Core PCE prices							
All participants	2.0	1.6	1.8	1.8	2.0	2.0	
Participants assuming further easing[1]	2.0	1.6	1.8	1.8	1.9	2.0	
Unemployment rate[2]							
All participants	8.2	8.2	8.2	7.8	7.2	6.5	5.5
Participants assuming further easing[1]	8.2	8.2	8.2	7.8	7.2	6.3	5.4
Federal funds rate[3]							
All participants	0.1	0.1	0.1	0.1	0.1	1.0	4.0
Participants assuming further easing[1]	0.1	0.1	0.1	0.1	0.1	1.0	4.0

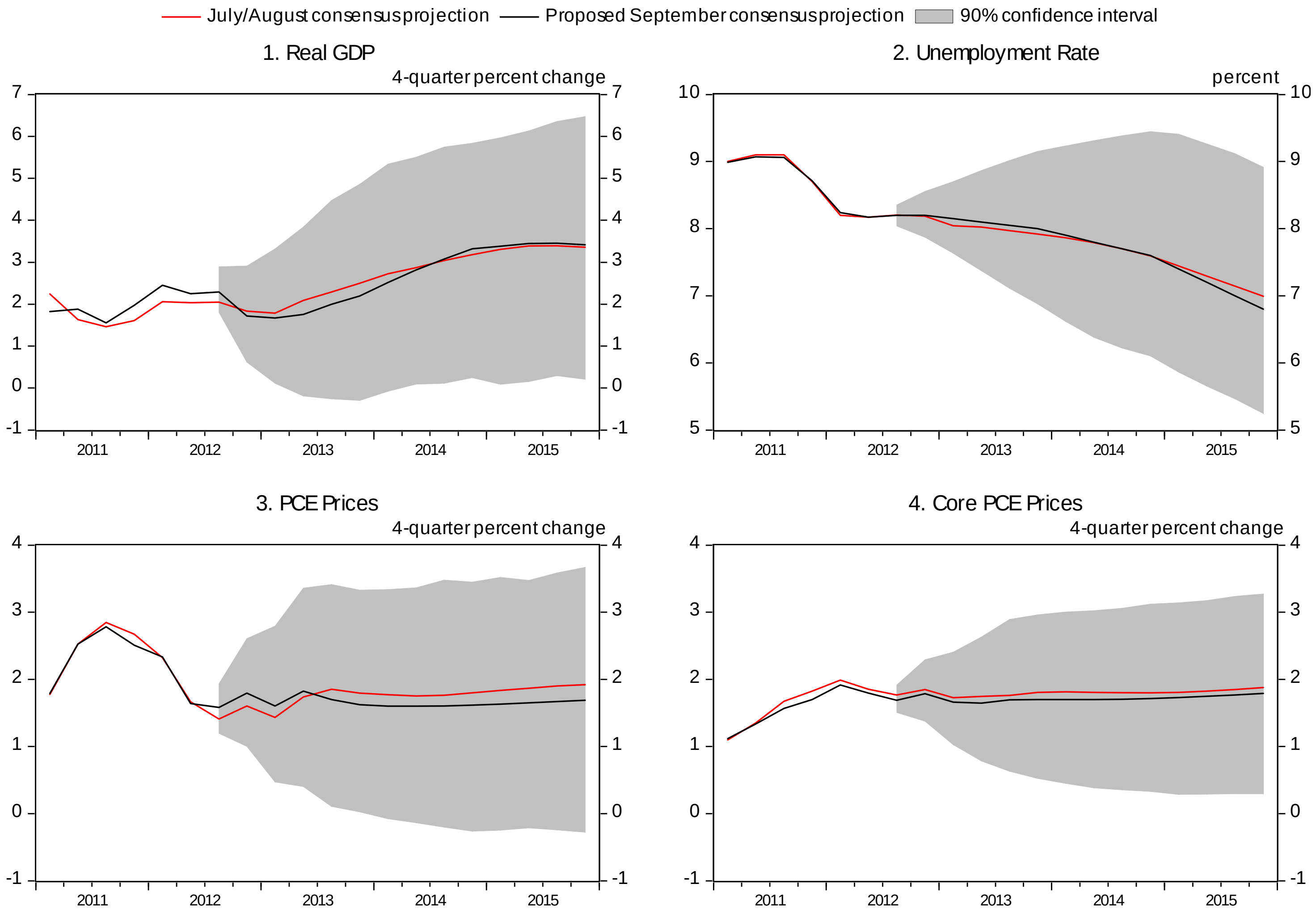
1. Includes all participants who conditioned their projections on additional portfolio actions and/or liftoff of the federal funds rate in 2015 or later. 2. Level in final quarter of period indicated. 3. Level at end of period indicated.

Table 3. Proposed Consensus Forecast Conditioned on Alternative Policy Assumptions

	2012 H1	2012 H2	2012	2013	2014	2015	2016	2017
	AR change, %		*-------Q4-over-Q4 percent change-------*					
Real GDP								
Status quo (August FOMC statement)	1.8	1.6	1.7	2.2	3.3	3.4	3.4	3.1
Liftoff advanced to mid-2015		1.6	1.7	2.3	3.4	3.5	3.2	3.0
Plus $750 billion LSAP program		1.6	1.7	2.7	3.6	3.5	3.2	2.8
Plus $1 trillion LSAP program		1.6	1.7	2.8	3.7	3.5	3.1	2.7
Unemployment rate[1]								
Status quo (August FOMC statement)	8.2	8.2	8.2	8.0	7.6	6.8	6.2	5.8
Liftoff advanced to mid-2015		8.2	8.2	7.9	7.5	6.6	6.1	5.7
Plus $750 billion LSAP program		8.2	8.2	7.8	7.2	6.3	5.8	5.6
Plus $1 trillion LSAP program		8.2	8.2	7.8	7.1	6.2	5.7	5.5
Total PCE inflation								
Status quo (August FOMC statement)	1.6	2.0	1.8	1.6	1.6	1.7	1.8	1.9
Liftoff advanced to mid-2015		2.0	1.8	1.6	1.6	1.8	1.9	2.0
Plus $750 billion LSAP program		2.1	1.8	1.7	1.8	1.9	2.0	2.1
Plus $1 trillion LSAP program		2.1	1.9	1.8	1.8	1.9	2.1	2.1
Core PCE inflation								
Status quo (August FOMC statement)	2.0	1.6	1.8	1.7	1.7	1.8	1.9	1.9
Liftoff advanced to mid-2015		1.6	1.8	1.7	1.7	1.9	2.0	2.0
Plus $750 billion LSAP program		1.7	1.8	1.8	1.9	2.0	2.1	2.1
Plus $1 trillion LSAP program		1.7	1.9	1.9	1.9	2.0	2.2	2.1
Federal funds rate[2]								
Status quo (August FOMC statement)	.1	.1	.1	.1	.5	1.7	2.6	3.4
Liftoff advanced to mid-2015		.1	.1	.1	.1	1.2	2.9	3.6
Plus $750 billion LSAP program		.1	.1	.1	.1	1.2	2.9	4.0
Plus $1 trillion LSAP program		.1	.1	.1	.1	1.2	2.9	4.1

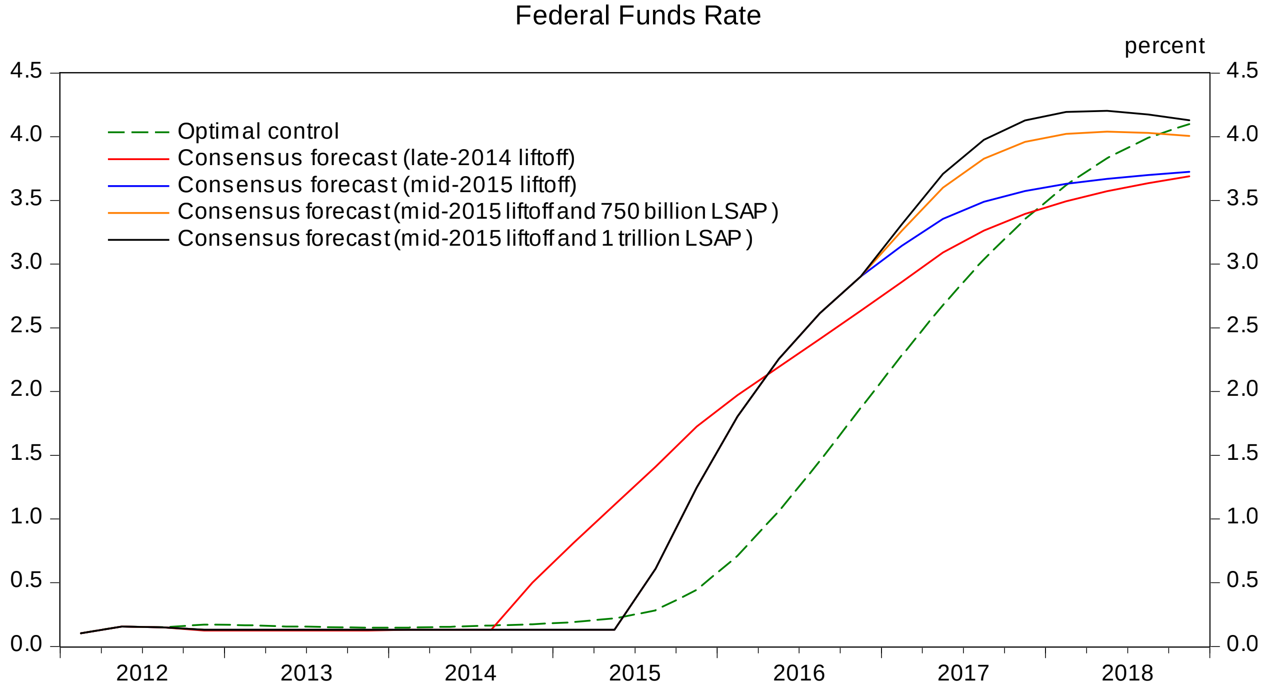
1. Level in final quarter of period indicated. 2. Level at end of period indicated.

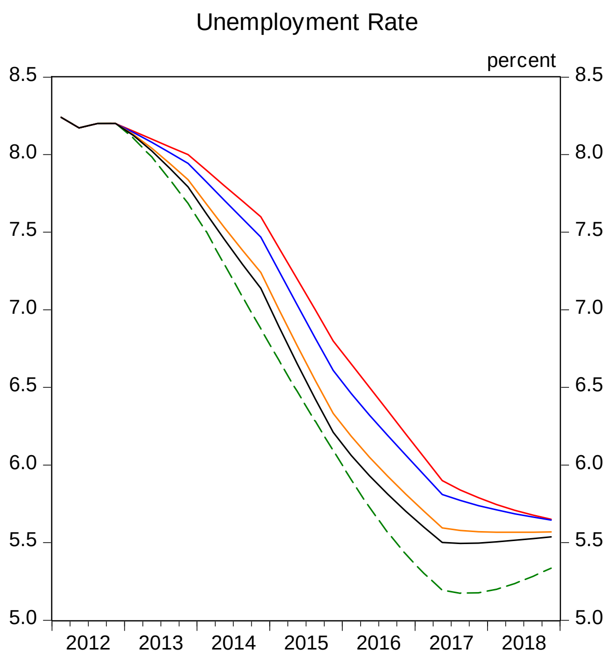
Exhibit 1. Proposed Consensus Forecast
Conditioned on No Additional Asset Purchases or Changes in Forward Guidance

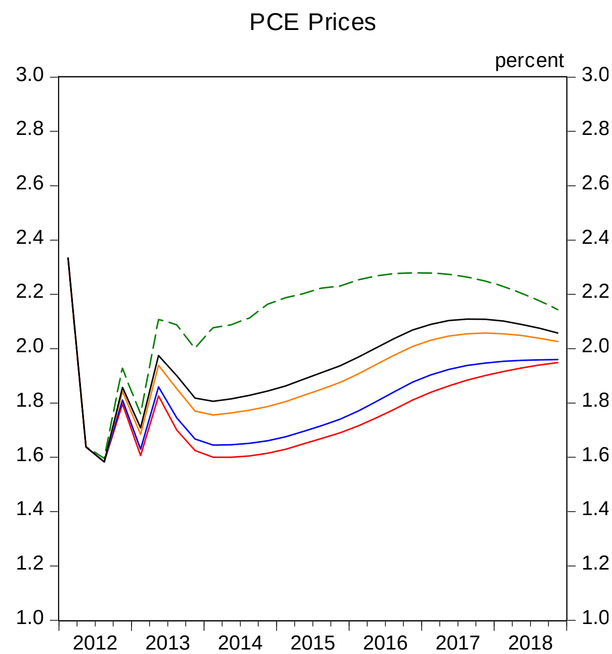


Note. Confidence intervals generated using stochastic simulations of the FRB/US model, with the model subjected to the sorts of shocks experienced since the late 1960s.

Exhibit 2. Proposed September Consensus Forecast Under Alternative Policy Assumptions Versus Optimal Control







Appendix 7: Materials used by Mr. English

Class I FOMC – Restricted Controlled (FR)

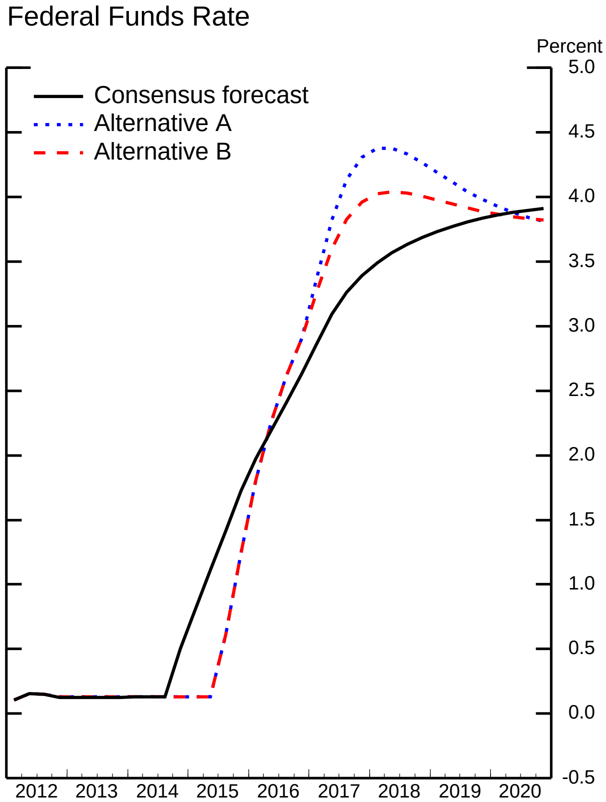
Material for

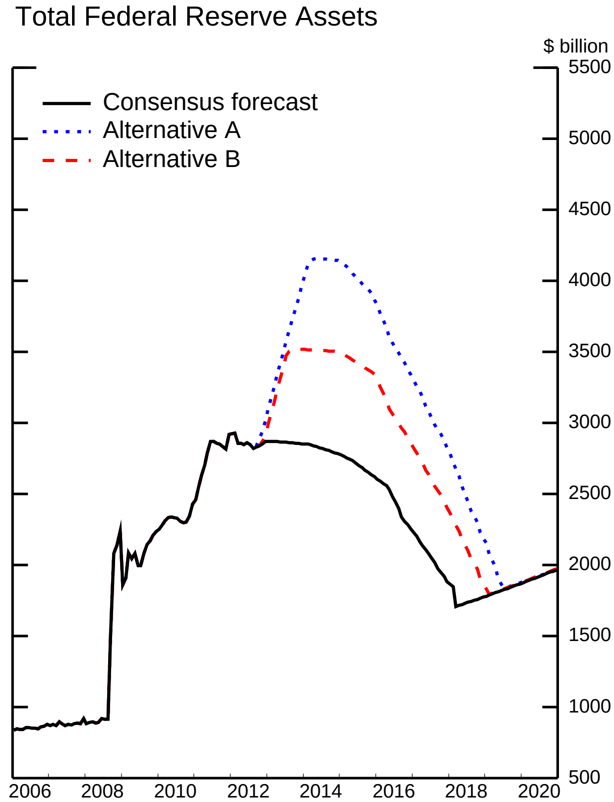
FOMC Briefing on Monetary Policy Alternatives

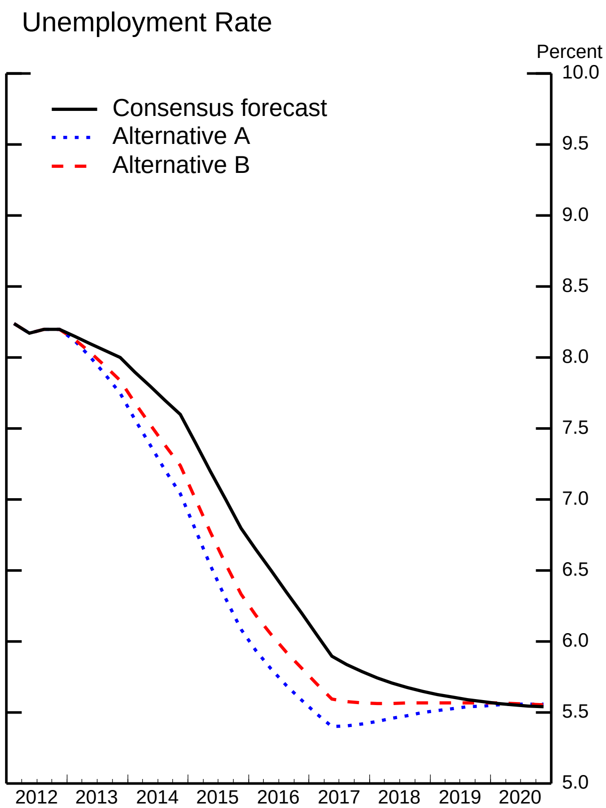
Bill English

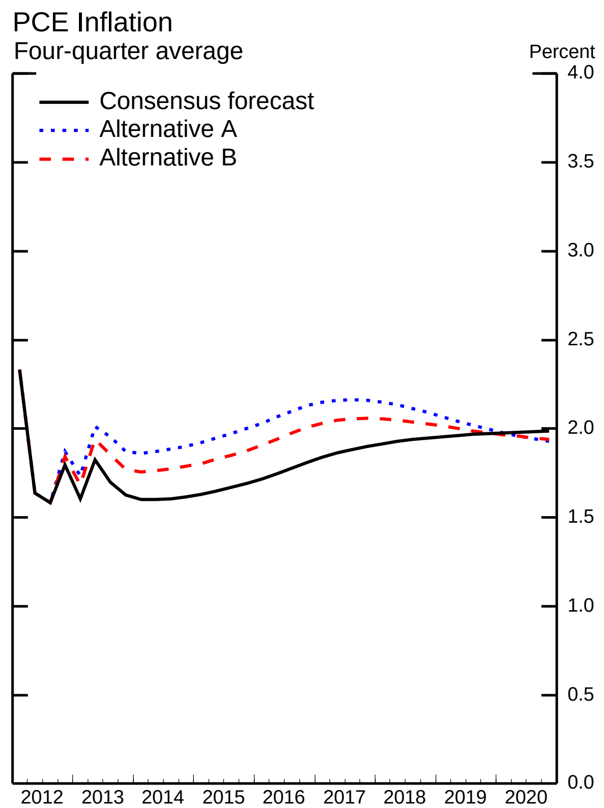
September 12-13, 2012

Alternative Monetary Policy Scenarios









AUGUST FOMC STATEMENT

1. Information received since the Federal Open Market Committee met in June suggests that economic activity decelerated somewhat over the first half of this year. Growth in employment has been slow in recent months, and the unemployment rate remains elevated. Business fixed investment has continued to advance. Household spending has been rising at a somewhat slower pace than earlier in the year. Despite some further signs of improvement, the housing sector remains depressed. Inflation has declined since earlier this year, mainly reflecting lower prices of crude oil and gasoline, and longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects economic growth to remain moderate over coming quarters and then to pick up very gradually. Consequently, the Committee anticipates that the unemployment rate will decline only slowly toward levels that it judges to be consistent with its dual mandate. Furthermore, strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee anticipates that inflation over the medium term will run at or below the rate that it judges most consistent with its dual mandate.
3. To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee expects to maintain a highly accommodative stance for monetary policy. In particular, the Committee decided today to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014.
4. The Committee also decided to continue through the end of the year its program to extend the average maturity of its holdings of securities as announced in June, and it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities. The Committee will closely monitor incoming information on economic and financial developments and will provide additional accommodation as needed to promote a stronger economic recovery and sustained improvement in labor market conditions in a context of price stability.

SEPTEMBER FOMC STATEMENT—ALTERNATIVE A

1. Information received since the Federal Open Market Committee met in ~~June~~ **August** suggests that economic activity ~~decelerated somewhat over the first half of this year~~ **has continued to expand at a moderate pace in recent months**. Growth in employment has been slow ~~in recent months~~, and the unemployment rate remains elevated. Household spending has ~~been rising at a somewhat slower pace than earlier in the year~~ **continued to advance, but growth in** business fixed investment ~~has continued to advance~~ **appears to have slowed**. ~~Despite some further signs of improvement,~~ The housing sector ~~remains~~ **has shown some further signs of improvement, albeit from a** depressed **level**. Inflation has ~~declined since earlier this year, mainly reflecting lower prices of crude oil and gasoline~~ **been subdued, although the prices of some key commodities have increased recently**. ~~and~~ Longer-term inflation expectations have remained stable.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects **that, without further policy accommodation,** economic growth ~~to remain moderate over coming quarters and then to pick up very gradually~~ **likely would not be strong enough to generate sustained improvement in labor market conditions**. ~~Consequently, the Committee anticipates that the unemployment rate will decline only slowly toward levels that it judges to be consistent with its dual mandate.~~ Furthermore, strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee **also** anticipates that inflation over the medium term ~~will~~ **likely would** run at or below ~~the rate that it judges most consistent with its dual mandate~~ **its 2 percent objective**.

3. To support a stronger economic recovery and to help ensure that inflation, over time, is ~~at the rate most consistent with its dual mandate~~ **close to 2 percent**, the Committee ~~expects to maintain a highly accommodative stance for monetary policy~~ **decided today to begin a new asset-purchase program**. **Specifically, the Committee now intends to purchase [$750 billion] of longer-term Treasury securities and [$500 billion] of agency mortgage-backed securities by early 2014, a combined pace of about [$75] billion per month. These increases in its securities holdings should put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.** The Committee will ~~closely monitor incoming information on~~ **regularly review the size and composition of its balance sheet in light of** economic and financial developments and ~~will provide additional accommodation as needed~~ **remains prepared to make adjustments as appropriate** to promote a stronger economic recovery and sustained improvement in labor market conditions in a context of price stability.

4. **This new asset-purchase program replaces the previously announced maturity extension program. In particular, the Committee is ending its sales of shorter-term Treasury securities and reinstituting its policy of rolling over maturing Treasury securities at auction.** The Committee ~~also decided to continue through the end of the year its program to extend the average maturity of its holdings of securities as announced in June, and it~~ is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities.

5. **To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the conclusion of this asset-purchase program.** In particular, the Committee **also** decided today to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that ~~economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant~~ exceptionally low levels for the federal funds rate **are likely to be warranted** at least through ~~late 2014~~ **mid-2015**.

Note: If policymakers decide that it is appropriate to reduce the remuneration rate on reserve balances, the Board of Governors would issue an accompanying statement that might read:

> ***In a related action, the Board of Governors voted today to reduce the interest rate paid on required and excess reserve balances from 25 basis points to 15 basis points effective with the reserve maintenance period that begins on September 20, 2012.***

SEPTEMBER FOMC STATEMENT—ALTERNATIVE B

1. Information received since the Federal Open Market Committee met in ~~June~~ **August** suggests that economic activity ~~decelerated somewhat over the first half of this year~~ **has continued to expand at a moderate pace in recent months**. Growth in employment has been slow ~~in recent months~~, and the unemployment rate remains elevated. Household spending has ~~been rising at a somewhat slower pace than earlier in the year~~ **continued to advance, but growth in** business fixed investment ~~has continued to advance~~ **appears to have slowed**. ~~Despite some further signs of improvement,~~ The housing sector ~~remains~~ **has shown some further signs of improvement, albeit from a** depressed **level**. Inflation has ~~declined since earlier this year, mainly reflecting lower prices of crude oil and gasoline~~ **been subdued, although the prices of some key commodities have increased recently**. ~~and~~ Longer-term inflation expectations have remained stable.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee ~~expects~~ **is concerned that, without further policy accommodation,** economic growth ~~to remain moderate over coming quarters and then to pick up very gradually~~ **might not be strong enough to generate sustained improvement in labor market conditions**. ~~Consequently, the Committee anticipates that the unemployment rate will decline only slowly toward levels that it judges to be consistent with its dual mandate.~~ Furthermore, strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee **also** anticipates that inflation over the medium term ~~will~~ **likely would** run at or below ~~the rate that it judges most consistent with its dual mandate~~ **its 2 percent objective**.

3. To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee ~~expects to maintain a highly accommodative stance for monetary policy~~ **agreed today to increase policy accommodation by purchasing additional agency mortgage-backed securities at a pace of [$30 | $40] billion per month**. The Committee also ~~decided to~~ **will** continue through the end of the year its program to extend the average maturity of its holdings of securities as announced in June, and it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities. **These actions, which together will increase the Committee's holdings of longer-term securities by about [$75 | $85] billion each month, should put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.**

4. The Committee will closely monitor incoming information on economic and financial developments ~~and will provide additional accommodation as needed to promote a stronger economic recovery and sustained improvement in~~ **in coming months**. **If the outlook for the** labor market ~~conditions~~ **does not improve substantially, the Committee will continue its purchases of agency mortgage-backed securities [and undertake additional asset purchases | , undertake additional asset purchases, and employ its other policy tools] as appropriate until such improvement is achieved** in a context of price stability. **In determining the size, pace, and composition of its asset purchases, the Committee will, as always, take appropriate account of the likely efficacy and costs of such purchases.**

5. **To support continued progress toward maximum employment and price stability, the Committee expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the economic recovery strengthens.** In particular, the Committee **also** decided today to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that ~~economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant~~ exceptionally low levels for the federal funds rate **are likely to be warranted** at least through ~~late 2014~~ **mid-2015**.

OR

5.′ **To support continued progress toward maximum employment and price stability, the Committee expects that exceptionally low levels of the federal funds rate will remain appropriate for a considerable time after the economic recovery strengthens.** In particular, the Committee **also** decided today to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that ~~economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014~~ **this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate exceeds 6½ percent, provided that inflation at a one- to two-year horizon is projected to be no more than a half percentage point above the Committee's 2 percent objective and longer-term inflation expectations continue to be well anchored**. **In determining the time horizon over which it maintains a highly accommodative stance of monetary policy, the Committee will also consider the pace of improvement in labor market conditions and other indicators of economic activity and prices.**

SEPTEMBER FOMC STATEMENT—ALTERNATIVE C

1. Information received since the Federal Open Market Committee met in ~~June~~ **August** suggests that economic activity ~~decelerated somewhat over the first half of this year~~ **has continued to expand at a moderate pace in recent months**. ~~Growth in~~ Employment has ~~been slow in recent months, and the unemployment rate remains elevated~~ **increased further**. ~~Business fixed investment~~ **Private domestic demand** has continued to advance, ~~Household spending has been rising at a somewhat slower pace than earlier in the year. Despite some further signs of improvement,~~ **and** the housing sector ~~remains depressed~~ **has shown some further signs of improvement**. Inflation has declined since earlier this year, ~~mainly reflecting lower prices of crude oil and gasoline,~~ and longer-term inflation expectations have remained stable**, but prices of some key commodities recently have increased significantly**.

2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects economic growth to remain moderate over coming quarters and then to pick up ~~very~~ gradually. Consequently, the Committee anticipates that the unemployment rate will decline ~~only~~ slowly toward levels that it judges to be consistent with its dual mandate. Furthermore, strains in global financial markets continue to pose significant downside risks to the economic outlook. The Committee anticipates that inflation over the medium term will run ~~at or below~~ **near** the ~~rate that it judges most consistent with its dual mandate~~ **Committee's 2 percent objective**.

3. To support ~~a stronger~~ **the** economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee expects to maintain a highly accommodative stance for monetary policy. In particular, the Committee decided today to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant exceptionally low levels for the federal funds rate at least through late **[2013 |** 2014 **]**.

OR

3'. To support a ~~stronger~~ **sustainable** economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee expects to maintain a highly accommodative stance for monetary policy. In particular, the Committee decided today to keep the target range for the federal funds rate at 0 to ¼ percent ~~and currently anticipates that economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014~~. **As rates of resource utilization rise toward levels consistent with maximum employment, the Committee eventually will need to make monetary policy less accommodative in order to ensure that the economy expands at a sustainable pace and to prevent inflation from persistently exceeding its longer-run objective. In determining the appropriate time to increase its target for the federal funds rate, the Committee will consider a range**

of factors, including actual and projected labor market conditions, the medium-term outlook for inflation, and the risks to the achievement of the Committee's objectives.

4. The Committee also decided to continue through the end of the year its program to extend the average maturity of its holdings of securities as announced in June, and it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities. The Committee will ~~closely monitor incoming information on economic and financial developments and will provide additional accommodation as needed~~ **regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as necessary** to promote ~~a stronger economic recovery and sustained improvement in labor market conditions in a context of~~ **maximum employment and** price stability.

AUGUST 2012 DIRECTIVE

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to continue the maturity extension program it announced in June to purchase Treasury securities with remaining maturities of 6 years to 30 years with a total face value of about \$267 billion by the end of December 2012, and to sell or redeem Treasury securities with remaining maturities of approximately 3 years or less with a total face value of about \$267 billion. For the duration of this program, the Committee directs the Desk to suspend its current policy of rolling over maturing Treasury securities into new issues. The Committee directs the Desk to maintain its existing policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities. These actions should maintain the total face value of domestic securities at approximately \$2.6 trillion. The Committee directs the Desk to engage in dollar roll transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

SEPTEMBER 2012 DIRECTIVE—ALTERNATIVE A

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to ~~continue the maturity extension program it announced in June to purchase Treasury securities with remaining maturities of 6 years to 30 years with a total face value of about \$267 billion by the end of December 2012, and to sell or redeem Treasury securities with remaining maturities of approximately 3 years or less with a total face value of about \$267 billion. For the duration of this program,~~ **begin a new asset-purchase program**. **This program replaces the previously announced maturity extension program. Specifically, the Desk is directed to purchase \$750 billion of longer-term Treasury securities and \$500 billion of agency mortgage-backed securities by early 2014, a combined pace of about \$75 billion per month.** The ~~Committee directs the~~ Desk ~~to suspend its current~~ **is also directed to reinstitute the** policy of rolling over maturing Treasury securities into new issues. The Committee directs the Desk to maintain its existing policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities. These actions should ~~maintain~~ **increase** the total face value of domestic securities ~~at~~ **to** approximately ~~\$2.6~~ **\$3.9** trillion. The Committee directs the Desk to engage in dollar roll **and coupon swap** transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

SEPTEMBER 2012 DIRECTIVE—ALTERNATIVE B

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to continue the maturity extension program it announced in June to purchase Treasury securities with remaining maturities of 6 years to 30 years with a total face value of about $267 billion by the end of December 2012, and to sell or redeem Treasury securities with remaining maturities of approximately 3 years or less with a total face value of about $267 billion. For the duration of this program, the Committee directs the Desk to suspend its ~~current~~ policy of rolling over maturing Treasury securities into new issues. The Committee directs the Desk to maintain its existing policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities. **The Desk is also directed to begin purchasing agency mortgage-backed securities at a pace of about [$30 | $40] billion per month.** ~~These actions should maintain the total face value of domestic securities at approximately $2.6 trillion.~~ The Committee directs the Desk to engage in dollar roll **and coupon swap** transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

SEPTEMBER 2012 DIRECTIVE—ALTERNATIVE C

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to continue the maturity extension program it announced in June to purchase Treasury securities with remaining maturities of 6 years to 30 years with a total face value of about $267 billion by the end of December 2012, and to sell or redeem Treasury securities with remaining maturities of approximately 3 years or less with a total face value of about $267 billion. For the duration of this program, the Committee directs the Desk to suspend its ~~current~~ policy of rolling over maturing Treasury securities into new issues. The Committee directs the Desk to maintain its existing policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities. These actions should maintain the total face value of domestic securities at approximately $2.6 trillion. The Committee directs the Desk to engage in dollar roll transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

Appendix 8: Materials used by Ms. Logan

Material for

FOMC Presentation:
Draft Desk Operating Statement

Lorie Logan

September 13, 2012

Statement Regarding Transactions in Agency Mortgage-Backed Securities and Treasury Securities

On September 13, 2012, the Federal Open Market Committee (FOMC) directed the Open Market Trading Desk (the Desk) at the Federal Reserve Bank of New York to begin purchasing additional agency mortgage-backed securities (MBS) at a pace of [$30 | 40] billion per month. The FOMC also directed the Desk to continue through the end of the year its program to extend the average maturity of its holdings of Treasury securities as announced in June and to maintain its existing policy of reinvesting principal payments from the Federal Reserve's holdings of agency debt and agency MBS in agency MBS.

The FOMC noted that these actions, which together will increase the Committee's holdings of longer-term securities by about $[75 | 85] billion each month, should put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.

Purchases of Agency MBS

The purchases of additional agency MBS will begin tomorrow, and are expected to total approximately $[17 | 23] billion over the remainder of September. Going forward, details associated with the additional amount of MBS to be purchased each month will be announced on or around the last business day of the prior month.

Consistent with current practice, the planned amount of purchases associated with reinvestments of principal payments on holdings of agency securities that are anticipated to take place over each monthly period will be announced on or around the eighth business day of the prior month. The next monthly reinvestment purchase amount was also published today, and can be found here: http://www.newyorkfed.org/markets/ambs/ambs_schedule.html.

The Desk anticipates that the agency MBS purchases associated with both the additional asset purchases and the principal reinvestments will likely be concentrated in newly-issued agency MBS in the To-Be-Announced (TBA) market, although the Desk may purchase other agency MBS if market conditions warrant.

Consistent with current practices, all purchases of agency MBS will be conducted with the Federal Reserve's primary dealers through a competitive bidding process and results will be published on the Federal Reserve Bank of New York's website. The Desk will also continue to publish transaction prices for individual operations on a monthly basis.

Frequently Asked Questions associated with these purchases will be released later today.