Appendix 1: Materials used by Mr. Dudley
(1) Collateral Haircuts Moving Higher
February 1, 2008 – March 10, 2008

### Haircuts by Asset Class

<table>
<thead>
<tr>
<th>COLLATERAL</th>
<th>Date</th>
<th>Average</th>
<th>High</th>
<th>Low</th>
<th>Average</th>
<th>High</th>
<th>Low</th>
<th>Average</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury</td>
<td>10-Mar</td>
<td>0.3%</td>
<td>1.5%</td>
<td>0.0%</td>
<td>0.3%</td>
<td>1.5%</td>
<td>0.0%</td>
<td>0.4%</td>
<td>1.5%</td>
<td>0.0%</td>
</tr>
<tr>
<td></td>
<td>3-Mar</td>
<td>0.2%</td>
<td>1.5%</td>
<td>0.0%</td>
<td>0.3%</td>
<td>1.5%</td>
<td>0.0%</td>
<td>0.4%</td>
<td>1.5%</td>
<td>0.0%</td>
</tr>
<tr>
<td></td>
<td>1-Feb</td>
<td>0.2%</td>
<td>1.5%</td>
<td>0.0%</td>
<td>0.3%</td>
<td>1.5%</td>
<td>0.0%</td>
<td>0.4%</td>
<td>1.5%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Agency Debt</td>
<td>10-Mar</td>
<td>0.7%</td>
<td>2.0%</td>
<td>0.0%</td>
<td>1.2%</td>
<td>5.0%</td>
<td>0.0%</td>
<td>1.3%</td>
<td>5.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td></td>
<td>3-Mar</td>
<td>0.6%</td>
<td>2.0%</td>
<td>0.0%</td>
<td>0.9%</td>
<td>3.0%</td>
<td>0.0%</td>
<td>1.0%</td>
<td>3.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td></td>
<td>1-Feb</td>
<td>0.6%</td>
<td>2.0%</td>
<td>0.0%</td>
<td>0.9%</td>
<td>3.0%</td>
<td>0.0%</td>
<td>1.0%</td>
<td>3.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Agency MBS</td>
<td>10-Mar</td>
<td>5%</td>
<td>7%</td>
<td>3%</td>
<td>5%</td>
<td>8%</td>
<td>3%</td>
<td>7%</td>
<td>10%</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>3-Mar</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>4%</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>1-Feb</td>
<td>3%</td>
<td>3%</td>
<td>2%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>4%</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>Non-agency MBS</td>
<td>Prime</td>
<td>10-Mar</td>
<td>16%</td>
<td>20%</td>
<td>10%</td>
<td>18%</td>
<td>20%</td>
<td>12%</td>
<td>17%</td>
<td>18%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3-Mar</td>
<td>16%</td>
<td>18%</td>
<td>15%</td>
<td>16%</td>
<td>18%</td>
<td>15%</td>
<td>18%</td>
<td>18%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1-Feb</td>
<td>11%</td>
<td>15%</td>
<td>5%</td>
<td>10%</td>
<td>18%</td>
<td>4%</td>
<td>12%</td>
<td>18%</td>
</tr>
<tr>
<td></td>
<td>Alt-A</td>
<td>10-Mar</td>
<td>23%</td>
<td>33%</td>
<td>18%</td>
<td>25%</td>
<td>33%</td>
<td>18%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3-Mar</td>
<td>14%</td>
<td>18%</td>
<td>10%</td>
<td>16%</td>
<td>20%</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1-Feb</td>
<td>11%</td>
<td>13%</td>
<td>10%</td>
<td>11%</td>
<td>13%</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Debt</td>
<td>High Grade</td>
<td>10-Mar</td>
<td>12%</td>
<td>25%</td>
<td>5%</td>
<td>16%</td>
<td>25%</td>
<td>5%</td>
<td>18%</td>
<td>25%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3-Mar</td>
<td>11%</td>
<td>25%</td>
<td>3%</td>
<td>13%</td>
<td>25%</td>
<td>3%</td>
<td>18%</td>
<td>25%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1-Feb</td>
<td>10%</td>
<td>25%</td>
<td>3%</td>
<td>11%</td>
<td>25%</td>
<td>3%</td>
<td>14%</td>
<td>25%</td>
</tr>
<tr>
<td></td>
<td>High Yield</td>
<td>10-Mar</td>
<td>30%</td>
<td>70%</td>
<td>10%</td>
<td>32%</td>
<td>70%</td>
<td>15%</td>
<td>36%</td>
<td>70%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3-Mar</td>
<td>26%</td>
<td>70%</td>
<td>9%</td>
<td>27%</td>
<td>70%</td>
<td>10%</td>
<td>35%</td>
<td>70%</td>
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<tr>
<td></td>
<td></td>
<td>1-Feb</td>
<td>25%</td>
<td>70%</td>
<td>6%</td>
<td>26%</td>
<td>70%</td>
<td>10%</td>
<td>28%</td>
<td>70%</td>
</tr>
</tbody>
</table>

Source: Survey of 11 Hedge Funds and 1 REIT

(2) Mortgage Rates
January 1, 2008 – March 17, 2008

### Mortgage Rates

- **Current Coupon Mortgage Yield (LHS)**
- **10-Year Treasury Yield (LHS)**
- **Fannie Mae Current Coupon MBS OAS (RHS)**

Source: Bloomberg and Lehman Brothers

Note: Vertical Dotted Lines Denote FOMC announcements on 3/7 and 3/11
(3) Spread between Jumbo and Conforming Mortgage Rates Remains Wide
January 1, 2007 – March 14, 2008

Source: Bloomberg

Note: Vertical Dotted Lines Denote FOMC announcements on 3/7 and 3/11

(4) Prices Across ABX Tranches Decline Further
January 1, 2007 – March 14, 2008

Source: JP Morgan

Note: Vertical Dotted Lines Denote FOMC announcements on 3/7 and 3/11

(5) Fannie Mae and Freddie Mac’s CDS Spreads Rise and Equity Prices Decline
January 1, 2007 – March 17, 2008

Source: Markit and Bloomberg
(6) Corporate Credit Spreads and Yields
January 01, 2007 – March 14, 2008

(7) Global Credit Default Swap Spreads Widen
March 1, 2007 – March 14, 2008

(8) U.S. Equity Indices Decline
August 1, 2007 – March 17, 2008

Source: Bloomberg

Note: Vertical Dotted Lines Denote FOMC announcements on 3/7 and 3/11
(9) Bank Term Funding Pressures Revive: One-Month Libor–OIS Spread
August 1, 2007 – March 17, 2008

Source: Bloomberg
Note: Vertical Dotted Lines Denote FOMC announcements on 3/7 and 3/11

(10) Three-Month Libor – OIS Spread
August 1, 2007 – March 17, 2008

Source: Bloomberg
Note: Vertical Dotted Lines Denote FOMC announcements on 3/7 and 3/11
### (11) Federal Reserve Term Auction Facility Results

**Federal Reserve Term Auction Facility:**

<table>
<thead>
<tr>
<th>Settlement</th>
<th>Term</th>
<th>Amount</th>
<th>Minimum Bid Rate</th>
<th>Stop-out Rate</th>
<th>Propositions</th>
<th>Bid/Cover</th>
<th>Bidders</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/20/2007</td>
<td>28 Days</td>
<td>$20 b</td>
<td>4.17%</td>
<td>4.65%</td>
<td>$61.6 b</td>
<td>3.08</td>
<td>93</td>
</tr>
<tr>
<td>12/27/2007</td>
<td>35 Days</td>
<td>$20 b</td>
<td>4.15%</td>
<td>4.67%</td>
<td>$57.7 b</td>
<td>2.88</td>
<td>73</td>
</tr>
<tr>
<td>1/17/2008</td>
<td>28 Days</td>
<td>$30 b</td>
<td>3.88%</td>
<td>3.95%</td>
<td>$55.5 b</td>
<td>1.85</td>
<td>56</td>
</tr>
<tr>
<td>1/31/2008</td>
<td>28 Days</td>
<td>$30 b</td>
<td>3.10%</td>
<td>3.12%</td>
<td>$37.5 b</td>
<td>1.25</td>
<td>52</td>
</tr>
<tr>
<td>2/14/2008</td>
<td>28 Days</td>
<td>$30 b</td>
<td>2.86%</td>
<td>3.01%</td>
<td>$58.4 b</td>
<td>1.95</td>
<td>66</td>
</tr>
<tr>
<td>2/28/2008</td>
<td>28 Days</td>
<td>$30 b</td>
<td>2.81%</td>
<td>3.08%</td>
<td>$68.0 b</td>
<td>2.27</td>
<td>72</td>
</tr>
<tr>
<td>3/13/2008</td>
<td>28 Days</td>
<td>$50 b</td>
<td>2.39%</td>
<td>2.80%</td>
<td>$92.6 b</td>
<td>1.85</td>
<td>82</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Board

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### (12) Composition of Federal Reserve’s Balance Sheet

**July 1, 2007 – April 30, 2008**

*RPs with an original maturity of at least 7 days are long-term.*

**Note:** The sum of all components equals net autonomous factors plus reserve balances.

Source: Federal Reserve Bank of New York
**(13) Commodity Prices Continue to Rise**

January 1, 2007 – March 17, 2008

![Chart showing commodity prices](chart1.png)

Source: Bloomberg

**Note:** Vertical Dotted Lines Denote FOMC announcements on 3/7 and 3/11

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**(14) Dollar Weakens**

January 1, 2006 – March 17, 2008

![Chart showing dollar index](chart2.png)

Source: Bloomberg and Federal Reserve Board

**Note:** Vertical Dotted Lines Denote FOMC announcements on 3/7 and 3/11

---

**(15) Chinese Yuan 12-Month Implied Appreciation**

January 1, 2007 – March 17, 2008

![Chart showing yuan/dollar](chart3.png)

Source: Reuters
(16) TIPS Implied Average Rate of Inflation: 5-10 Year Horizon
August 1, 2007 – March 14, 2008

Source: Federal Reserve Board and Barclays Capital

Note: Vertical Dotted Lines Denote FOMC announcements on 3/7 and 3/11

(17) Fed Funds Futures Curve Shifts Down

Source: Bloomberg

(18) Eurodollar Futures Curve Also Shifts Lower

Source: Bloomberg
APPENDIX: Reference Exhibits

(19) Implied Volatility Increases
January 1, 2007 – March 17, 2008

Source: Bloomberg

(20) Treasury Yield Curve Shifts Lower and Continues to Steepen

Source: Bloomberg

Note: Vertical Dotted Lines Denote FOMC announcements on 3/7 and 3/11

(21) 10-Year Treasury Inflation Protected and Nominal Treasury Yields
January 1, 2007 – March 17, 2008

Source: Bloomberg

Note: Vertical Dotted Lines Denote FOMC announcements on 3/7 and 3/11
(22) GC Repo Market
January 1, 2007 – March 17, 2008

Source: Federal Reserve Bank of New York

(23) Probability Distribution on Eurodollar Futures Contract
300 Days Forward

Source: CME Options

(24) Probabilities for Policy Rate Outcomes for March FOMC Meeting
February 1, 2008 – March 14, 2008

Source: Cleveland Fed
(25) Distribution of Expected Policy Target Among Primary Dealers Prior to March 18 FOMC Meeting

Source: Dealer Policy Survey

(26) Distribution of Expected Policy Target Among Primary Dealers Prior to January 29-30 FOMC Meeting

Source: Dealer Policy Survey
Appendix 2: Materials used by Mr. Madigan
Class I FOMC – Restricted Controlled (FR)

Material for
FOMC Briefing on Monetary Policy Alternatives

Brian Madigan
March 18, 2008
### Table 1: Alternative Language for the March 18, 2008 FOMC Announcement

<table>
<thead>
<tr>
<th>Alternative A</th>
<th>Alternative B</th>
<th>Alternative C</th>
<th>Alternative D</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Policy Decision</strong></td>
<td>The Federal Open Market Committee decided today to lower its target for the federal funds rate <strong>75</strong> basis points to <strong>2-1/4</strong> percent.</td>
<td>The Federal Open Market Committee decided today to lower its target for the federal funds rate <strong>50</strong> basis points to <strong>2-1/2</strong> percent.</td>
<td>The Federal Open Market Committee decided today to <strong>keep</strong> its target for the federal funds rate at <strong>3</strong> percent.</td>
</tr>
<tr>
<td><strong>Rationale</strong></td>
<td>Recent information indicates that the outlook for economic activity has weakened further and that downside risks persist. Growth in consumer spending has slowed and labor markets have softened. Financial markets remain under considerable stress, and the tightening of credit conditions and the deepening of the housing contraction are likely to continue to weigh on economic growth over the next few quarters.</td>
<td>Growth in consumer spending has slowed and labor markets have softened. Financial markets remain under considerable stress, and the tightening of credit conditions and the deepening of the housing contraction are likely to continue to weigh on economic growth. Recent policy actions should help to promote moderate growth over time.</td>
<td>Growth in consumer spending has slowed, labor markets have softened, and financial markets remain under considerable stress. Although downside risks to growth remain, recent policy actions should help to promote moderate growth over time.</td>
</tr>
<tr>
<td><strong>Assessment of Risk</strong></td>
<td>Inflation has been elevated, and some measures of inflation expectations have risen. 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 has increased. It will be necessary to continue to monitor inflation developments carefully.</td>
<td>Inflation has been elevated, and upward pressure on inflation could result from several factors, including further increases in energy, commodity, and other import prices. Although the Committee expects inflation to moderate in coming quarters, the upside risks to the outlook for inflation have increased. The Committee will continue to monitor inflation developments carefully.</td>
<td>Inflation has been elevated, and upward pressure on inflation could result from several factors, including further increases in energy, commodity, and other import prices. Although the Committee expects inflation to moderate in coming quarters, the upside risks to the outlook for inflation have increased. The Committee will continue to monitor inflation developments carefully.</td>
</tr>
</tbody>
</table>
