

Appendix 1: Materials used by Mr. Sack

Class II FOMC - Restricted FR

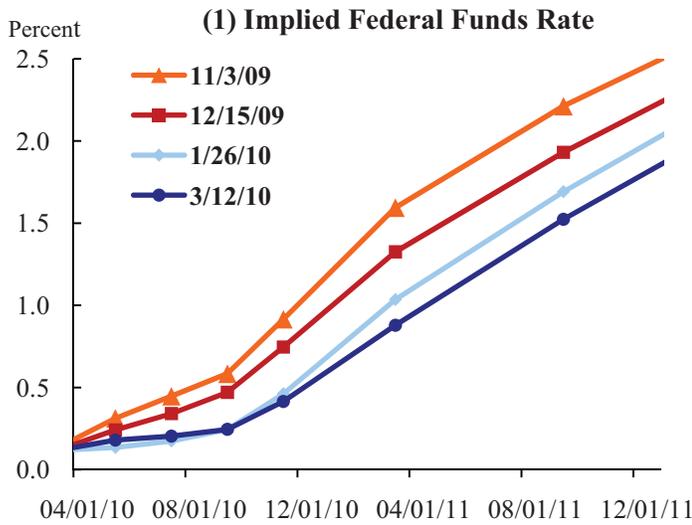
Material for

FOMC Presentation:

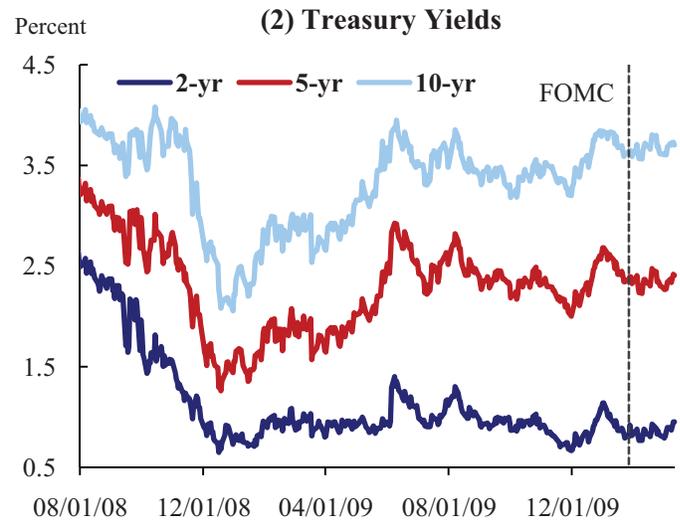
Financial Market Developments and Desk Operations

Brian Sack

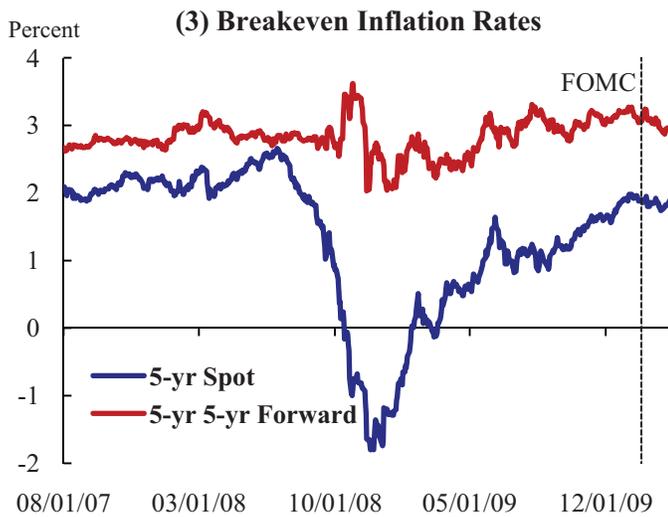
March 16, 2010



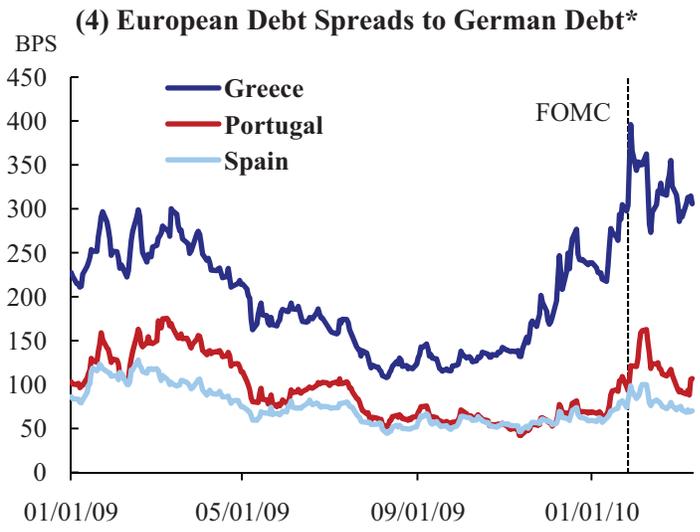
Source: Federal Reserve Bank of New York



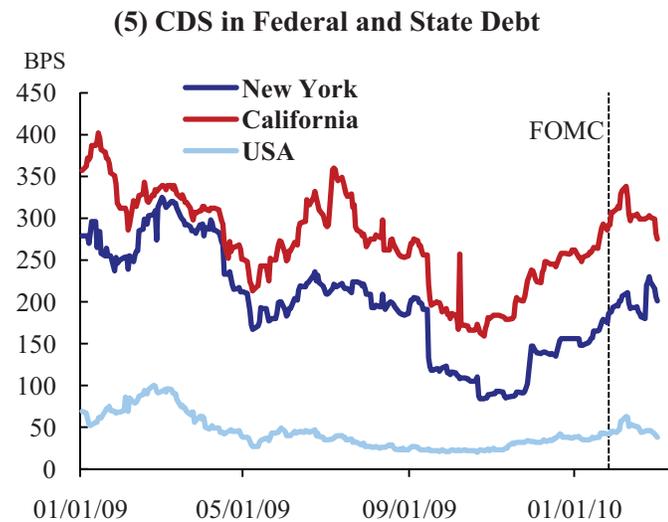
Source: Bloomberg



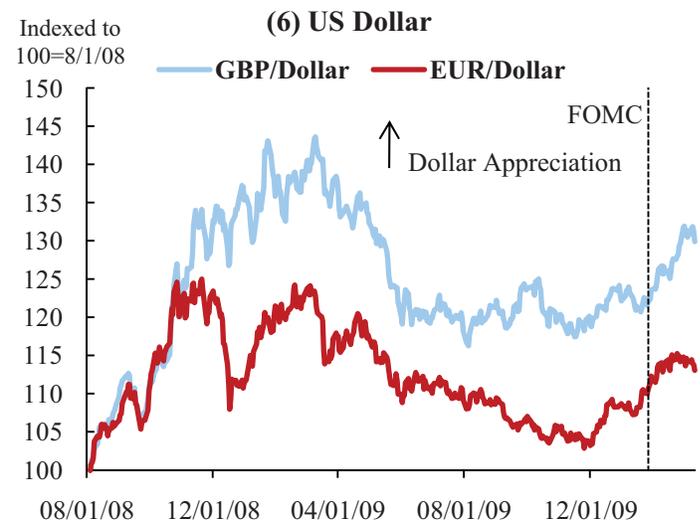
Source: Federal Reserve Board of Governors



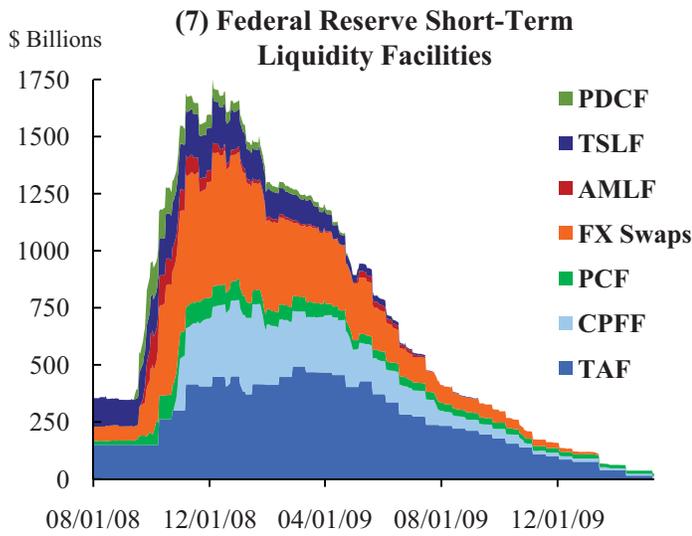
*10-yr Maturity; Source: Bloomberg



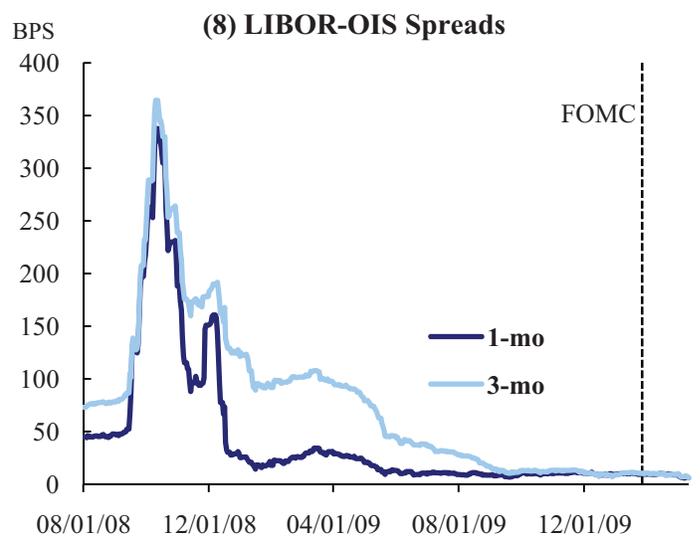
Source: Bloomberg



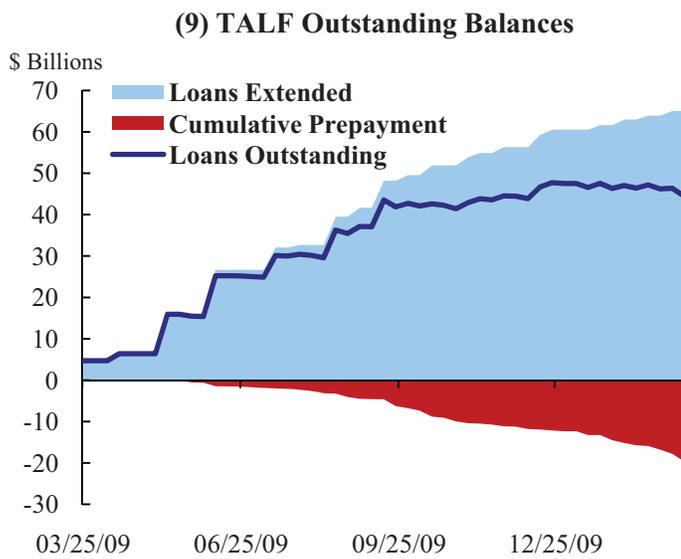
Source: Federal Reserve Board of Governors, Bloomberg



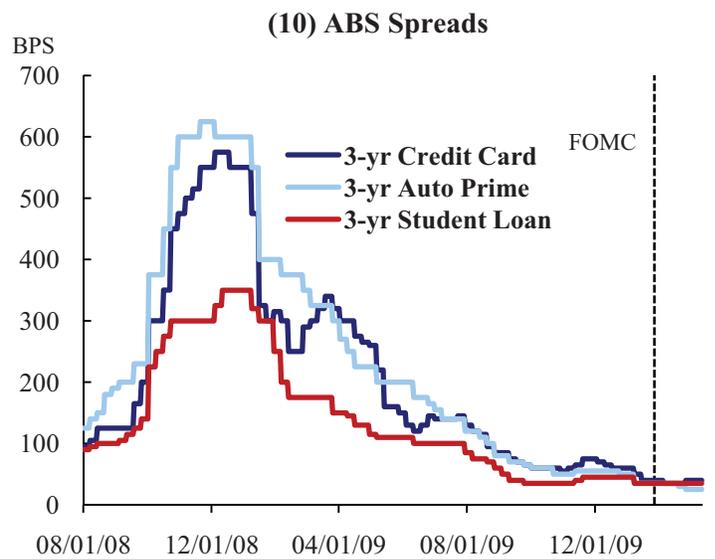
Source: Federal Reserve Bank of New York



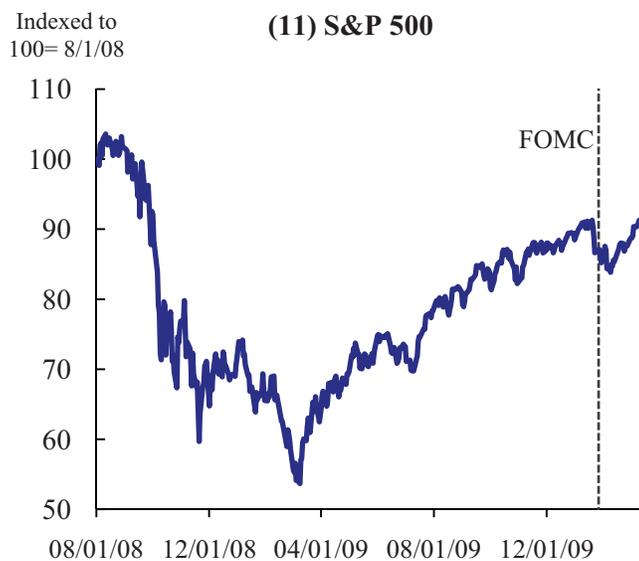
Source: Bloomberg



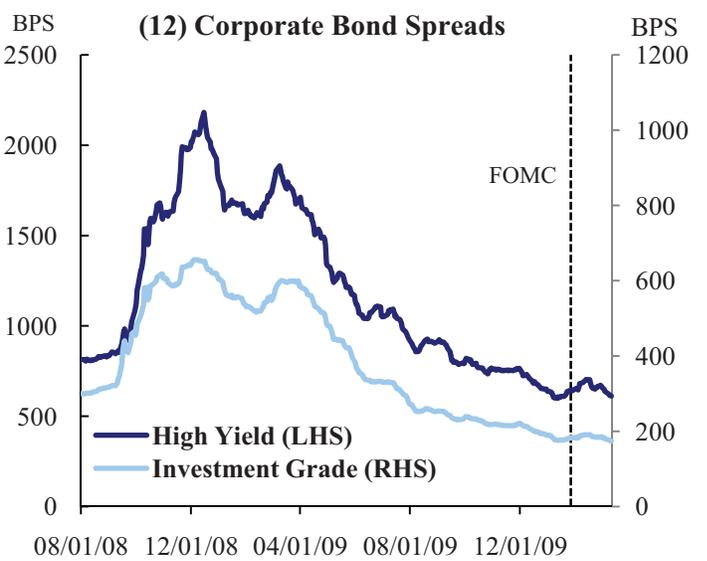
Source: Federal Reserve Bank of New York



Source: JP Morgan Chase

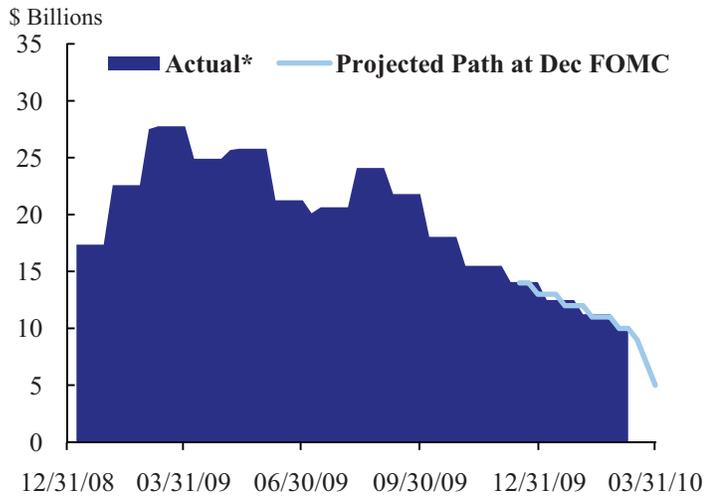


Source: Bloomberg



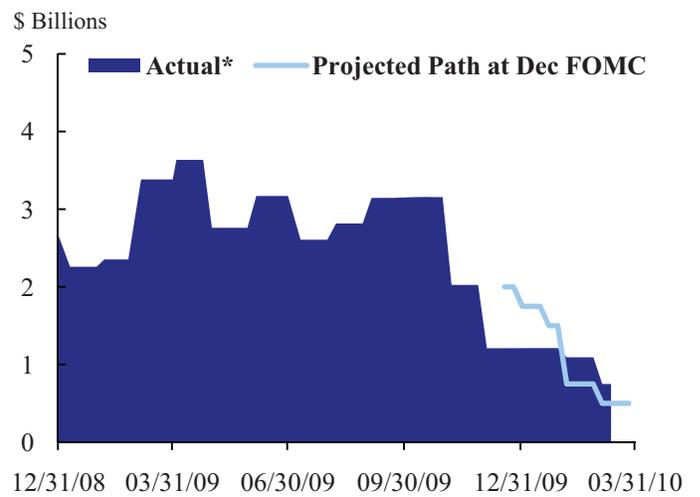
Source: Bank of America

(13) Weekly Pace of MBS Purchases



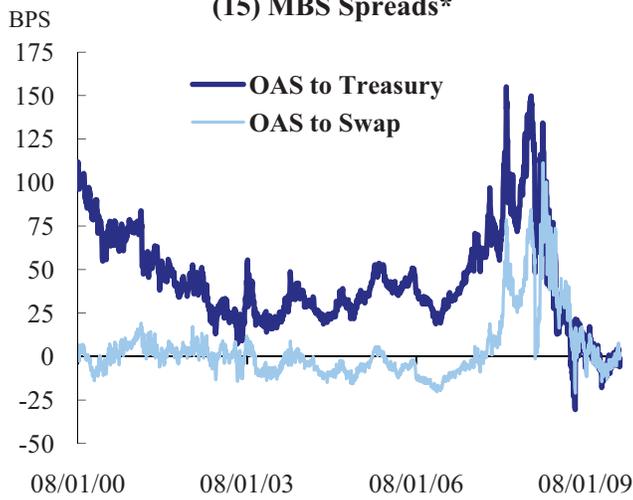
*Monthly average; Source: Federal Reserve Bank of New York

(14) Weekly Pace of Agency Debt Purchases



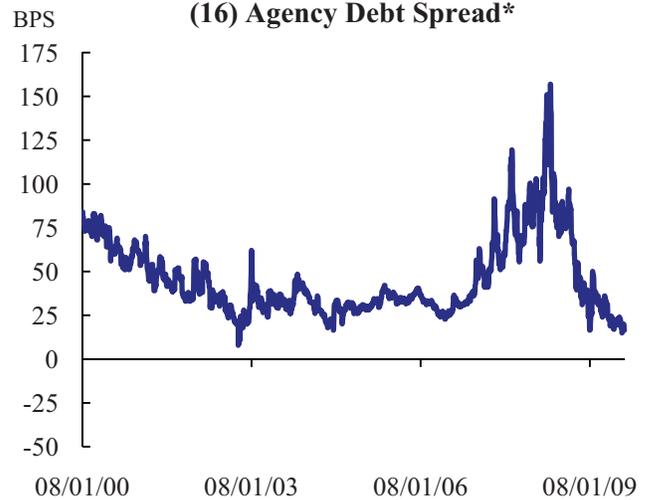
*Monthly average; Source: Federal Reserve Bank of New York

(15) MBS Spreads*



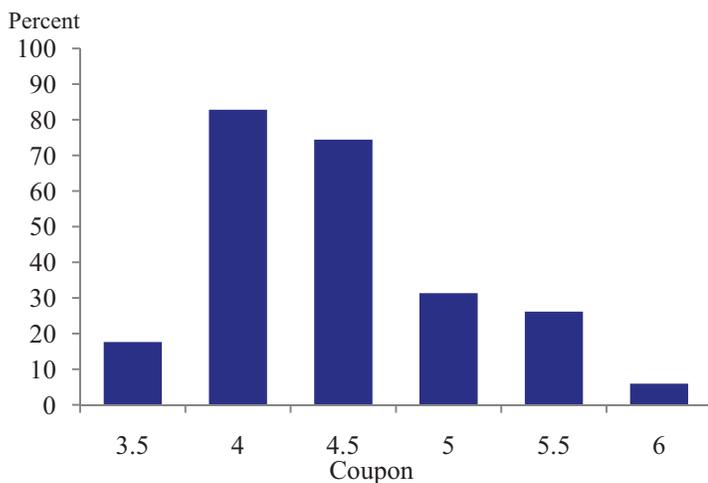
* Fannie Mae fixed-rate current coupon spreads; Source: Barclays Capital

(16) Agency Debt Spread*



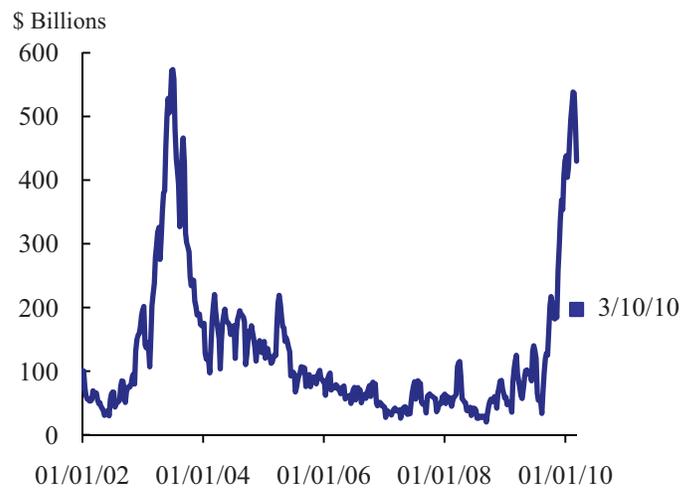
*Fannie Mae 5-yr benchmark spread to Treasury; Source: JP Morgan Chase

(17) Percent of Outstanding MBS Owned by SOMA*



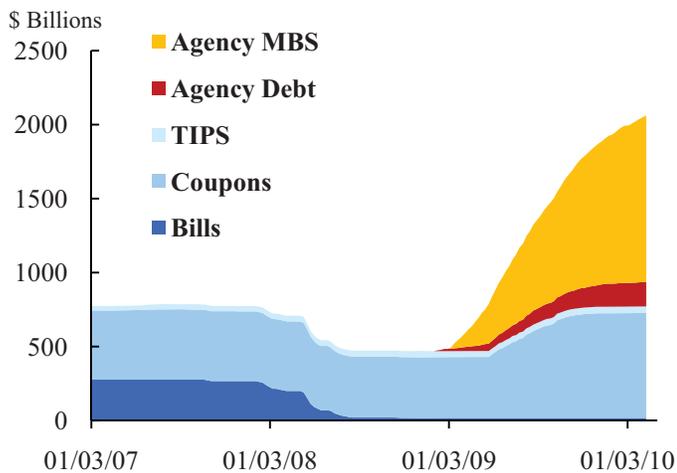
*Fannie Mae 30-yr; Source: Federal Reserve Bank of New York

(18) MBS Fails*



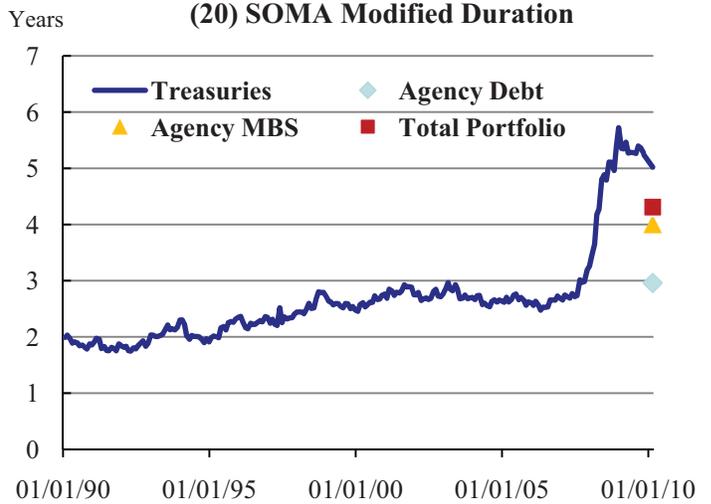
*4-wk moving average; Source: FR2004

(19) Domestic SOMA Portfolio Composition



Source: Federal Reserve Bank of New York

(20) SOMA Modified Duration



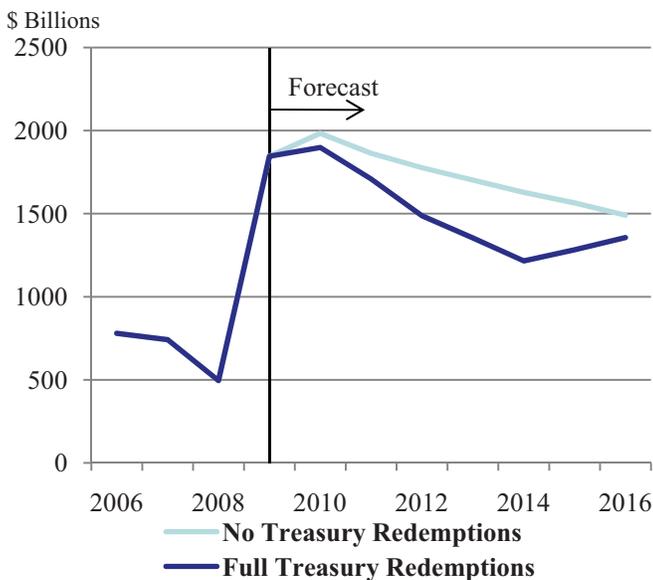
Source: Federal Reserve Bank of New York

(21) Change in Size of SOMA from Asset Redemptions

	Levels of SOMA Assets (\$ Billions, Par)		Cumulative Change (from April 1, 2010)	
	6/30/2007	4/1/2010	Through 2011	Through 2015
Agency MBS*	0	1,130	-187	-415
Agency Debt	0	170	-63	-130
Total non-Treasury	0	1,300	-250	-545
Treasury Debt	786	771	-139	-436
Total	786	2,071	-389	-981

* Estimates reflect BlackRock's prepayment assumptions; Source: Federal Reserve Bank of New York

(22) Alternate Paths for the Size of SOMA*



*Forecast as of 3/3/2010; Source: Federal Reserve Bank of New York

(23) Change in Size of SOMA under Alternative Treasury Redemption Strategies

	Cumulative Change (from April 1, 2010)
	Through 2011
Full Redemptions	-139
Reinvest into Bills	-103
Reinvest into Bills and 2-yr Notes	-32
Reinvest into Bills and 2-, 3-yr Notes	0

Source: Federal Reserve Bank of New York

Appendix 2: Materials used by Mr. Stockton

Private Housing Construction
(Thousands of units, seasonally adjusted annual rate, except where noted)

Category	2009	2009			2009	2010		
		Q2	Q3	Q4 ^r	Dec.	Jan. ^p	Jan. ^r	Feb. ^p
<i>Total</i>								
Starts	554	540	587	559	573	591	611	575
Permits	572	529	573	598	653	621	622	612
<i>Single-family</i>								
Starts	445	425	498	481	481	484	502	499
Permits	435	406	460	474	505	507	504	503
Adjusted permits ¹	440	418	478	488	520	519	517	507
Permits backlog ²	58	59	56	58	58	57	58	57
<i>Multifamily</i>								
Starts	109	115	89	78	92	107	109	76
Permits	137	123	113	124	148	114	118	109
Adjusted permits ¹	132	123	114	125	148	114	118	109
Permits backlog ²	40	39	37	40	40	38	38	39
<i>Regional starts³</i>								
Northeast	62	63	66	59	60	66	73	66
Midwest	97	90	107	100	94	91	94	104
South	278	261	289	292	309	312	317	268
West	117	126	124	108	110	122	127	137

r revised

p preliminary

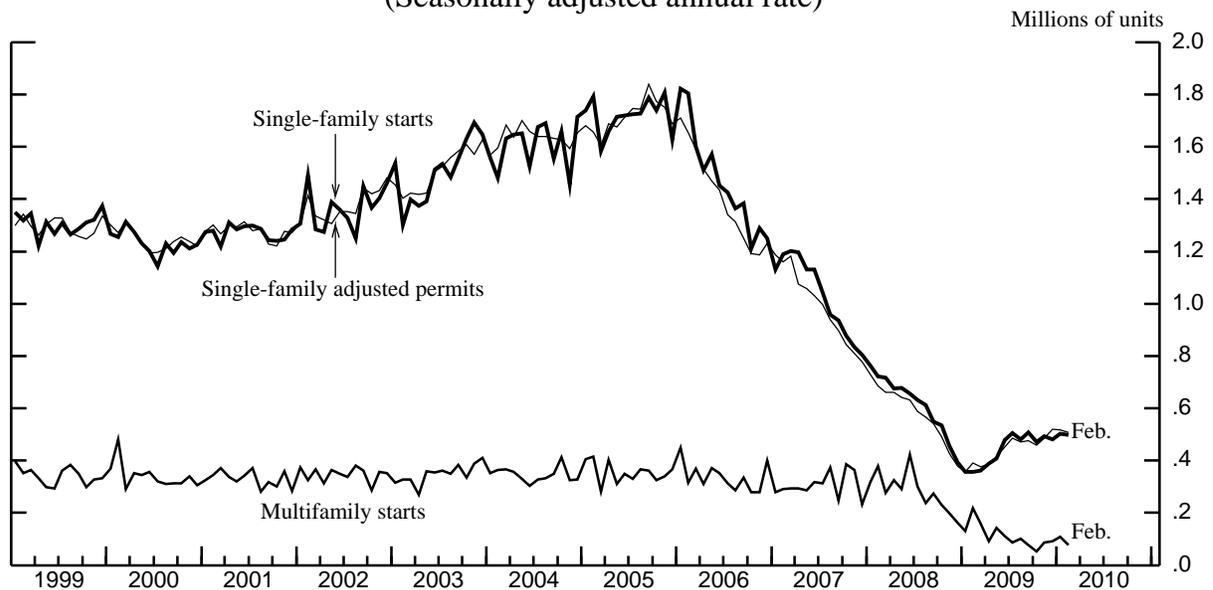
1. Adjusted permits equal permit issuance plus total starts outside of permit-issuing areas.

2. Number outstanding at end of period. Seasonally adjusted by staff. Excludes permits that have been cancelled, abandoned, expired, or revoked. Not at an annual rate.

3. Sum of single-family and multifamily starts.

Source: Census Bureau.

Private Housing Starts and Permits
(Seasonally adjusted annual rate)

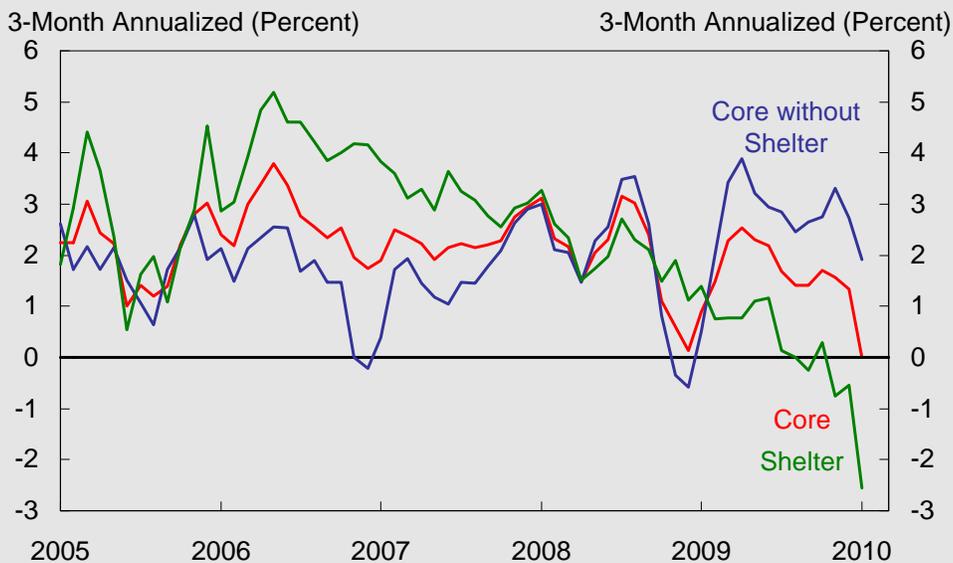


Note. Adjusted permits equal permit issuance plus total starts outside of permit-issuing areas.

Source: Census Bureau.

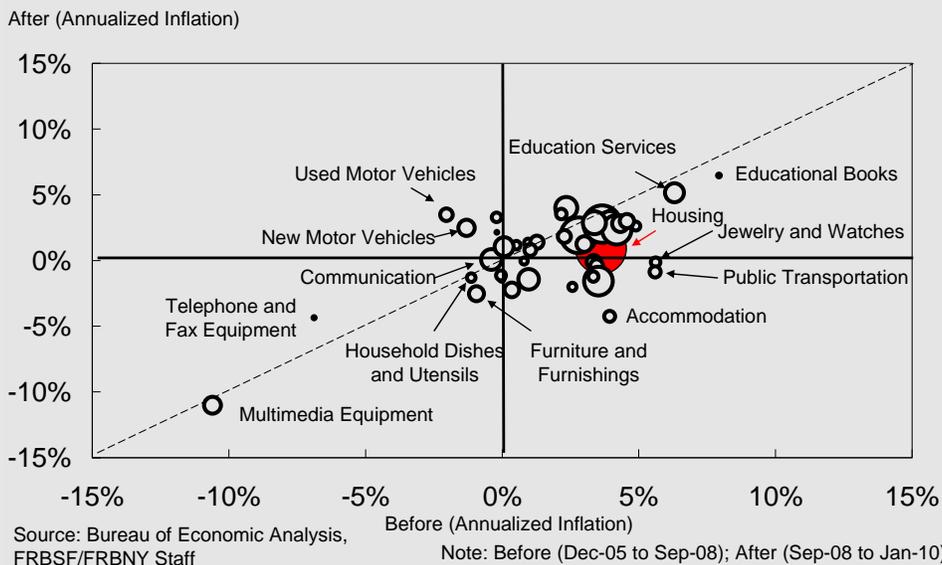
Appendix 3: Materials used by Mr. Dudley

Figure 1: Core CPI Inflation with and without Shelter



Source: Bureau of Labor Statistics

Figure 2: Core PCE Components Before and After Sep-2008



Appendix 4: Materials used by Mr. Madigan

Class I FOMC – Restricted Controlled (FR)

*Material for Briefing on
Monetary Policy Alternatives*

Brian Madigan
March 16, 2010

January FOMC Statement

Information received since the Federal Open Market Committee met in December suggests that economic activity has continued to strengthen and that the deterioration in the labor market is abating. Household spending is expanding at a moderate rate but remains constrained by a weak labor market, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software appears to be picking up, but investment in structures is still contracting and employers remain reluctant to add to payrolls. Firms have brought inventory stocks into better alignment with sales. While bank lending continues to contract, financial market conditions remain supportive of economic growth. Although the pace of economic recovery is likely to be moderate for a time, the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability.

With substantial resource slack continuing to restrain cost pressures and with longer-term inflation expectations stable, inflation is likely to be subdued for some time.

The Committee will maintain the target range for the federal funds rate at 0 to $\frac{1}{4}$ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period. To provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve is in the process of purchasing \$1.25 trillion of agency mortgage-backed securities and about \$175 billion of agency debt. In order to promote a smooth transition in markets, the Committee is gradually slowing the pace of these purchases, and it anticipates that these transactions will be executed by the end of the first quarter. The Committee will continue to evaluate its purchases of securities in light of the evolving economic outlook and conditions in financial markets.

In light of improved functioning of financial markets, the Federal Reserve will be closing the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, the Commercial Paper Funding Facility, the Primary Dealer Credit Facility, and the Term Securities Lending Facility on February 1, as previously announced. In addition, the temporary liquidity swap arrangements between the Federal Reserve and other central banks will expire on February 1. The Federal Reserve is in the process of winding down its Term Auction Facility: \$50 billion in 28-day credit will be offered on February 8 and \$25 billion in 28-day credit will be offered at the final auction on March 8. The anticipated expiration dates for the Term Asset-Backed Securities Loan Facility remain set at June 30 for loans backed by new-issue commercial mortgage-backed securities and March 31 for loans backed by all other types of collateral. The Federal Reserve is prepared to modify these plans if necessary to support financial stability and economic growth.

March FOMC Statement—Alternative A

1. Information received since the Federal Open Market Committee met in **January** suggests that economic activity has continued to strengthen and that the deterioration in the labor market is abating. Household spending is expanding at a moderate rate but remains constrained by **high unemployment**, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software **has risen significantly**. **However**, investment in **nonresidential** structures is still contracting, **housing activity continues to be sluggish**, and employers remain reluctant to add to payrolls. **In light of the weakness in labor markets and prospects for a subpar economic recovery, the Committee judges that further monetary stimulus is warranted.**
2. With substantial resource slack continuing to restrain cost pressures and with longer-term inflation expectations stable, inflation is likely to be subdued for some time.
3. To provide **further** support to mortgage lending and housing markets and to **promote a more robust economic recovery in a context of price stability, the Committee decided to extend its program for purchasing** agency mortgage-backed securities. **The previously announced purchases of \$1.25 trillion of those** securities will be executed by the end of **this month, and the Committee now anticipates that an additional \$150 billion of such securities will be purchased during the second quarter.** The Federal Reserve **has been** purchasing about \$175 billion of agency debt, and **those** transactions will be executed by the end of **this month**. The Committee will continue to evaluate its purchases of securities in light of the evolving economic outlook and conditions in financial markets. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period.
4. In light of improved functioning of financial markets, the Federal Reserve **has been closing the special liquidity facilities that it created to support markets during the crisis. The only remaining such program, the Term Asset-Backed Securities Loan Facility, is scheduled to close on** June 30 for loans backed by new-issue commercial mortgage-backed securities and **on** March 31 for loans backed by all other types of collateral.

March FOMC Statement—Alternative B

1. Information received since the Federal Open Market Committee met in **January** suggests that economic activity has continued to strengthen and that the labor market **is stabilizing**. Household spending is expanding at a moderate rate but remains constrained by **high unemployment**, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software **has risen significantly**. **However**, investment in **nonresidential** structures is **declining, and housing starts have been flat at a depressed level**. While bank lending continues to contract, financial market conditions remain supportive of economic growth. Although the pace of economic recovery is likely to be moderate for a time, the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability.
2. With substantial resource slack continuing to restrain cost pressures and longer-term inflation expectations stable, inflation is likely to be subdued for some time. **[The Committee expects that over time and with appropriate monetary policy, inflation will run at rates consistent with price stability.]**
3. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for an extended period. To provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve **has been** purchasing \$1.25 trillion of agency mortgage-backed securities and about \$175 billion of agency debt; **those purchases are nearing completion, and the remaining** transactions will be executed by the end of **this month**. **The Committee will continue to monitor the economic outlook and financial developments and will employ its policy tools as necessary to promote economic recovery and price stability.**
4. In light of improved functioning of financial markets, the Federal Reserve **has been closing the special liquidity facilities that it created to support markets during the crisis**. **The only remaining such program**, the Term Asset-Backed Securities Loan Facility, **is scheduled to close on** June 30 for loans backed by new-issue commercial mortgage-backed securities and **on** March 31 for loans backed by all other types of collateral.

March FOMC Statement—Alternative C

1. Information received since the Federal Open Market Committee met in January indicates that economic activity has continued to advance and that the labor market is beginning to stabilize. Consumer spending is expanding, business spending on equipment and software has risen appreciably, and firms have brought inventory stocks into better alignment with sales. While bank lending continues to contract, financial market conditions remain supportive of economic growth. With a sustainable economic recovery now under way, the Committee anticipates a gradual return to higher levels of resource utilization.
2. Higher energy prices have been reflected in a recent modest pickup in inflation, but underlying inflation pressures remain muted. The Committee will adjust the stance of monetary policy as necessary over time to ensure that longer-term inflation expectations remain well anchored and that inflation outcomes are consistent with price stability.
3. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for some time [, at least through the end of the second quarter]. The Federal Reserve has been purchasing \$1.25 trillion of agency mortgage-backed securities and about \$175 billion of agency debt; those purchases are nearing completion, and the remaining transactions will be executed by the end of this month.
4. Although the federal funds rate is likely to remain exceptionally low for some time, the Federal Reserve will need to begin to tighten monetary conditions at the appropriate time to prevent the [development of inflationary pressures] [buildup of financial imbalances and inflationary pressures over the medium to long run]. Over coming months, the Federal Reserve will continue to test its tools for draining reserves. In due course, those operations will be scaled up to drain more significant volumes of reserve balances, and then the Federal Reserve will increase the interest rate paid on reserves and its target for the federal funds rate. The Committee anticipates that any sales of the Federal Reserve's securities holdings would be gradual and would not occur until after policy tightening is under way and the economic recovery is sufficiently advanced. The Committee will monitor the economic outlook and financial developments in determining the timing and sequence of its measures for policy firming and will employ its tools as necessary to promote economic recovery and price stability.
5. In light of improved functioning of financial markets, the Federal Reserve has been closing the special liquidity facilities that it created to support markets during the crisis. The only remaining such program, the Term Asset-Backed Securities Loan Facility, is scheduled to close on June 30 for loans backed by new-issue commercial mortgage-backed securities and on March 31 for loans backed by all other types of collateral.

March FOMC Statement—Alternative C'

1. Information received since the Federal Open Market Committee met in January indicates that economic activity has continued to advance and that the labor market is beginning to stabilize. Consumer spending is expanding, business spending on equipment and software has risen appreciably, and firms have brought inventory stocks into better alignment with sales. While bank lending continues to contract, financial market conditions remain supportive of economic growth. With a sustainable economic recovery now under way, the Committee anticipates a gradual return to higher levels of resource utilization.
2. Higher energy prices have been reflected in a recent modest pickup in inflation, but underlying inflation pressures remain muted. The Committee will adjust the stance of monetary policy as necessary over time to ensure that longer-term inflation expectations remain well anchored and that inflation outcomes are consistent with price stability.
3. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels of the federal funds rate for some time [, at least through the end of the second quarter]. The Federal Reserve has been purchasing \$1.25 trillion of agency mortgage-backed securities and about \$175 billion of agency debt; those purchases are nearing completion, and the remaining transactions will be executed by the end of this month.
4. Although the federal funds rate is likely to remain exceptionally low for some time, the Federal Reserve will need to begin to tighten monetary conditions at the appropriate time to prevent the [development of inflationary pressures] [buildup of financial imbalances and inflationary pressures over the medium to long run]. Over coming months, the Federal Reserve will continue to test its tools for draining reserves. In due course, those operations will be scaled up to drain more significant volumes of reserve balances, and then the Federal Reserve will increase the interest rate paid on reserves and its target for the federal funds rate. To reduce the size of its balance sheet over time, the Federal Reserve has been allowing all agency debt and agency mortgage-backed securities to roll off as they mature or are prepaid, and beginning on April 1 the Federal Reserve will begin to redeem all maturing Treasury securities. The Committee will also be assessing the possibility of gradual sales of the Federal Reserve's securities holdings to accomplish further reductions in the size of its portfolio. The Committee will monitor the economic outlook and financial developments in determining the timing and sequence of its measures for policy firming and will employ its tools as necessary to promote economic recovery and price stability.
5. In light of improved functioning of financial markets, the Federal Reserve has been closing the special liquidity facilities that it created to support markets during the crisis. The only remaining such program, the Term Asset-Backed Securities Loan Facility, is scheduled to close on June 30 for loans backed by new-issue commercial mortgage-backed securities and on March 31 for loans backed by all other types of collateral.

Table 1: Overview of Alternative Language for the March 16, 2010 FOMC Announcement

	January FOMC	March Alternatives		
		A	B	C/C'
<i>Economic Activity</i>				
Recent Developments	“has continued to strengthen”	“has continued to strengthen”		“has continued to advance”
Labor Market	abating deterioration, employers reluctant to hire	abating deterioration but unemployment high	appears to be stabilizing but unemployment high	is beginning to stabilize
Outlook	pace of recovery “likely to be moderate”	further monetary stimulus warranted by prospects for subpar recovery	pace of recovery “likely to be moderate”	sustainable recovery “now under way”
<i>Inflation</i>				
Key Factors	substantial resource slack, stable expectations	substantial resource slack, stable expectations		modest pickup due to energy prices, but underlying pressures remain muted
Outlook	“likely to be subdued for some time”	“likely to be subdued for some time”		policy adjustments will ensure outcomes “consistent with price stability”
<i>Timing and Sequence of Policy Firming</i>				
Forward Guidance	“exceptionally low... for an extended period”	“exceptionally low... for an extended period”		“exceptionally low... for some time”
Overview of Exit Strategy*	---	---		reserve draining, then increased IOER and target funds rate
<i>Agency MBS Purchases</i>				
Amount	\$1.25 trillion	\$1.4 trillion	\$1.25 trillion	
Duration	executed by the end of the first quarter	extended through the end of the second quarter	executed by the end of this month	
<i>Focus of Policy Evaluation</i>				
	“its purchases of securities”	“its purchases of securities”	“will employ its policy tools as necessary”	“timing and sequence of its measures for policy firming”

* Alternative C indicates an expectation that asset sales will be gradual and will not be initiated until after policy firming has begun. Alternative C' states that the Federal Reserve will be redeeming all maturing Treasury securities and points to the possibility that gradual asset sales could commence fairly soon.

DIRECTIVE

The directive from the January meeting and draft language for the March directive are provided below.

JANUARY FOMC MEETING

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 purchase agency debt and agency MBS during the intermeeting period with the aim of providing support to private credit markets and economic activity. The timing and pace of these purchases should depend on conditions in the markets for such securities and on a broader assessment of private credit market conditions. The Desk is expected to execute purchases of about \$175 billion in housing-related agency debt and about \$1.25 trillion of agency MBS by the end of the first quarter. The Desk is expected to gradually slow the pace of these purchases as they near completion. The Committee anticipates that outright purchases of securities will cause the size of the Federal Reserve's balance sheet to expand significantly in coming months. The Committee directs the Desk to engage in dollar roll transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions to be conducted through the end of the first quarter, as directed above. 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.

MARCH FOMC MEETING — 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 purchase agency debt and agency MBS during the intermeeting period with the aim of providing support to private credit markets and economic activity. The timing and pace of these purchases should depend on conditions in the markets for such securities and on a broader assessment of private credit market conditions. The Desk is expected to execute purchases of about \$175 billion in housing-related agency debt by the end of March and about \$1.4 trillion of agency MBS by the end of the second quarter. The Committee anticipates that outright purchases of securities will cause the size of the Federal Reserve's balance sheet to expand significantly in coming months. The Committee directs the Desk to engage in dollar roll transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions to be conducted through the end of the second quarter, as directed above. 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.

MARCH FOMC MEETING — ALTERNATIVES B AND 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 complete the execution of its purchases of about \$1.25 trillion of agency MBS and of about \$175 billion in housing-related agency debt by the end of March. 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.

MARCH FOMC MEETING — 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 complete the execution of its purchases of about \$1.25 trillion of agency MBS and of about \$175 billion in housing-related agency debt by the end of March. 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 Committee directs the Desk to reduce the System's securities holdings by **continuing the current practice of not reinvesting the proceeds from MBS prepayments and from maturing agency MBS and agency debt and, beginning on April 1, 2010, by not reinvesting the proceeds from maturing Treasury securities.** 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.