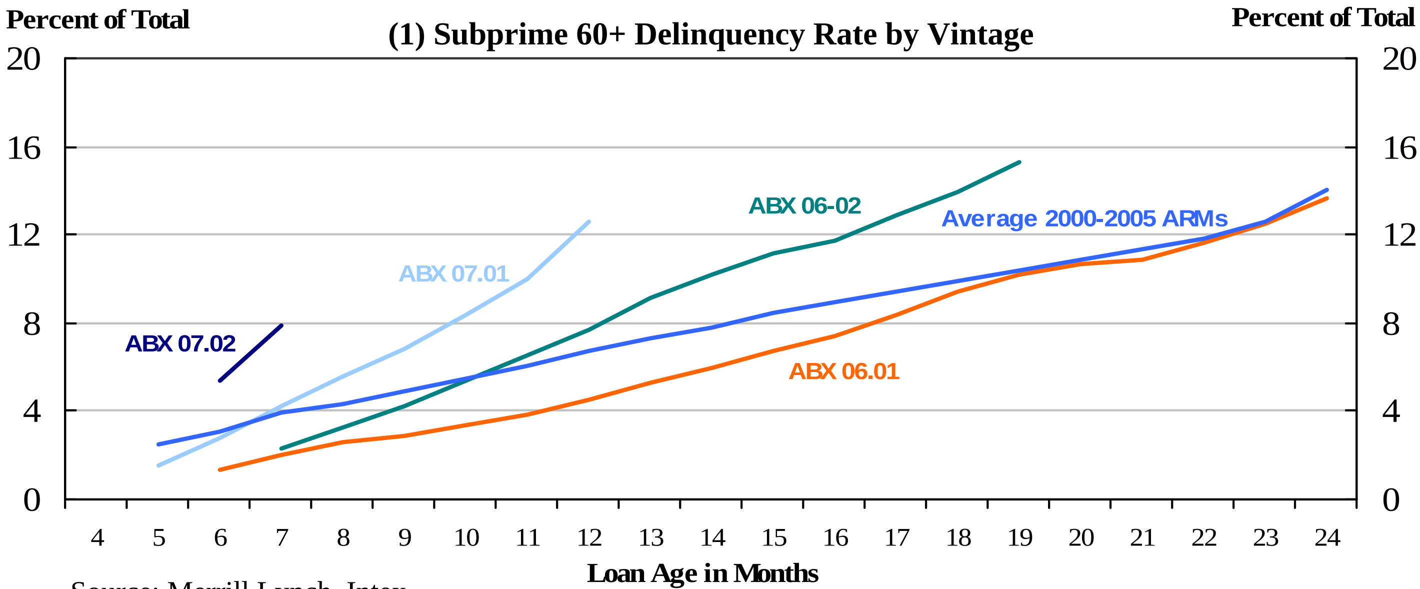
Appendix 1: Materials used by Mr. Dudley

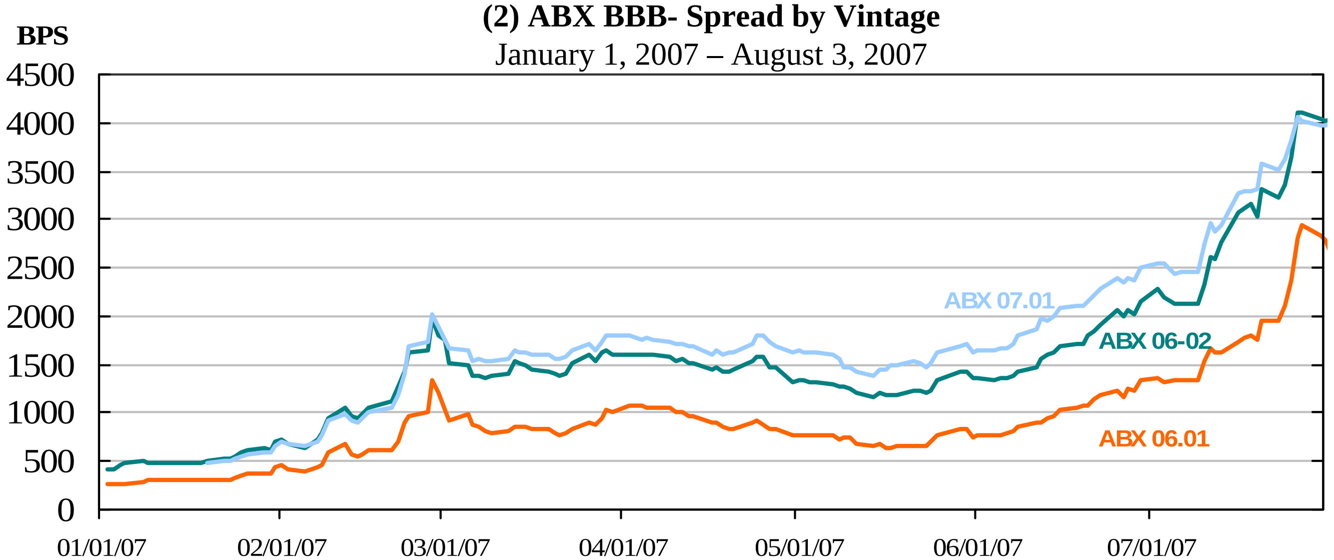
(1) Subprime 60+ Delinquency Rate by Vintage



Source: Merrill Lynch, Intex

(2) ABX BBB- Spread by Vintage

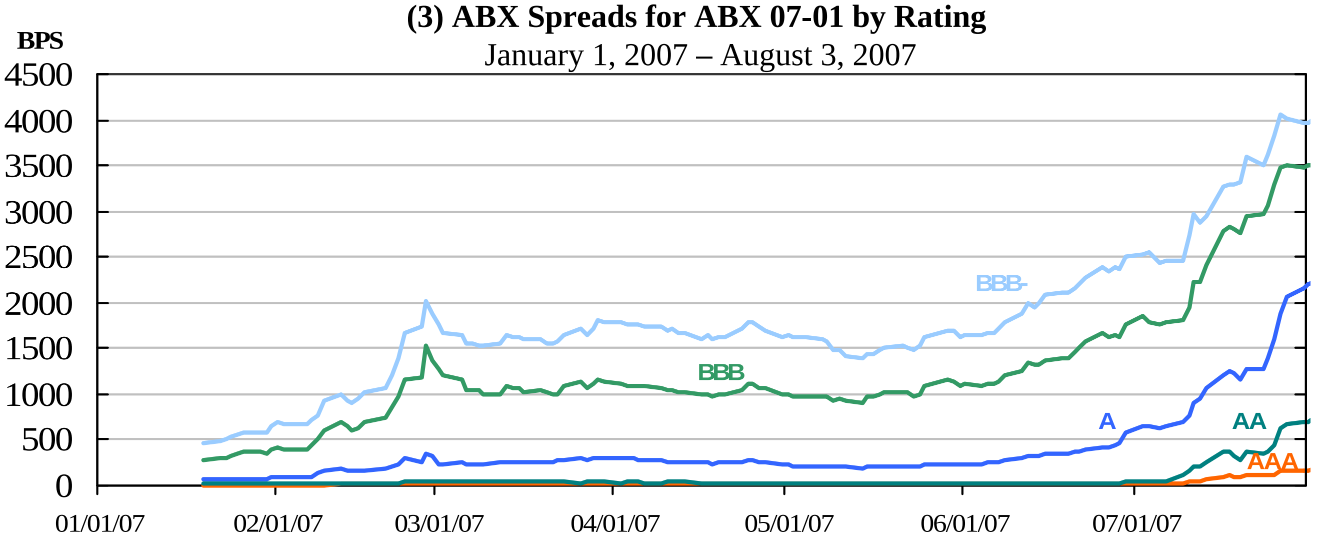
January 1, 2007 – August 3, 2007



Source: JP Morgan

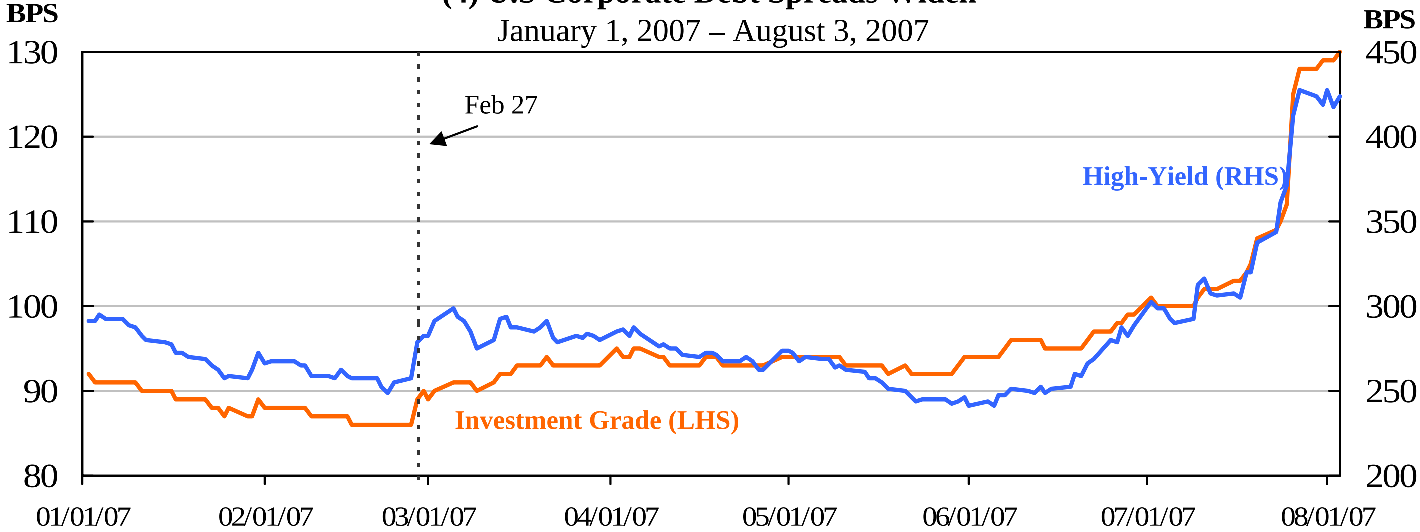
(3) ABX Spreads for ABX 07-01 by Rating

January 1, 2007 – August 3, 2007



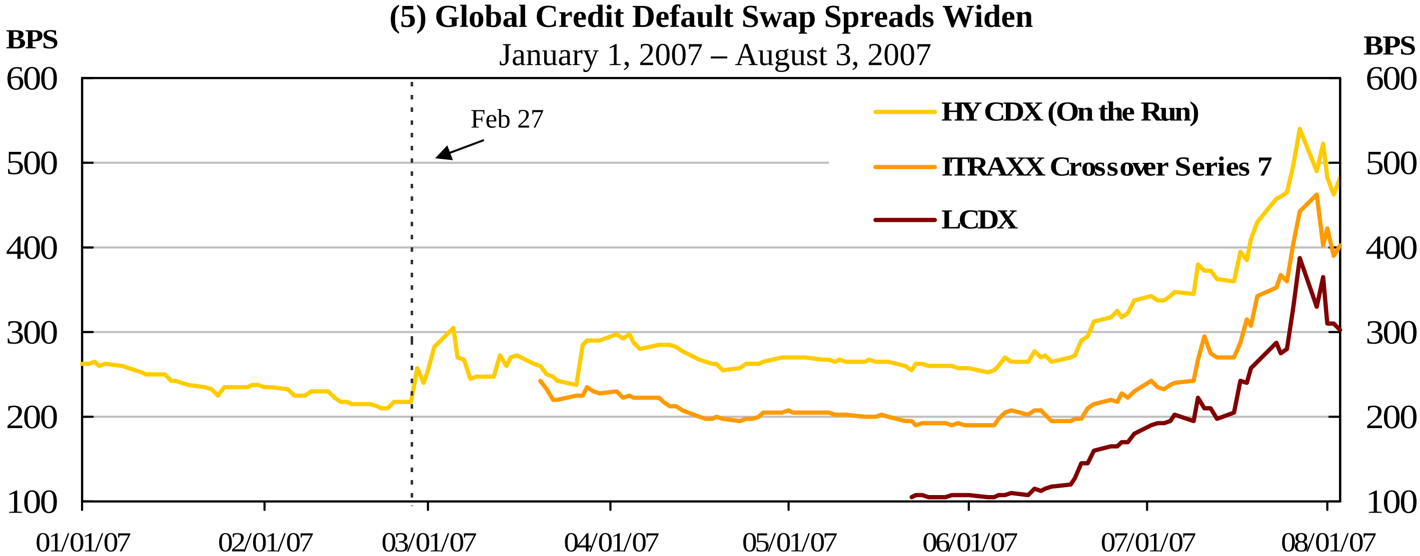
Source: JP Morgan

(4) U.S Corporate Debt Spreads Widen
January 1, 2007 – August 3, 2007



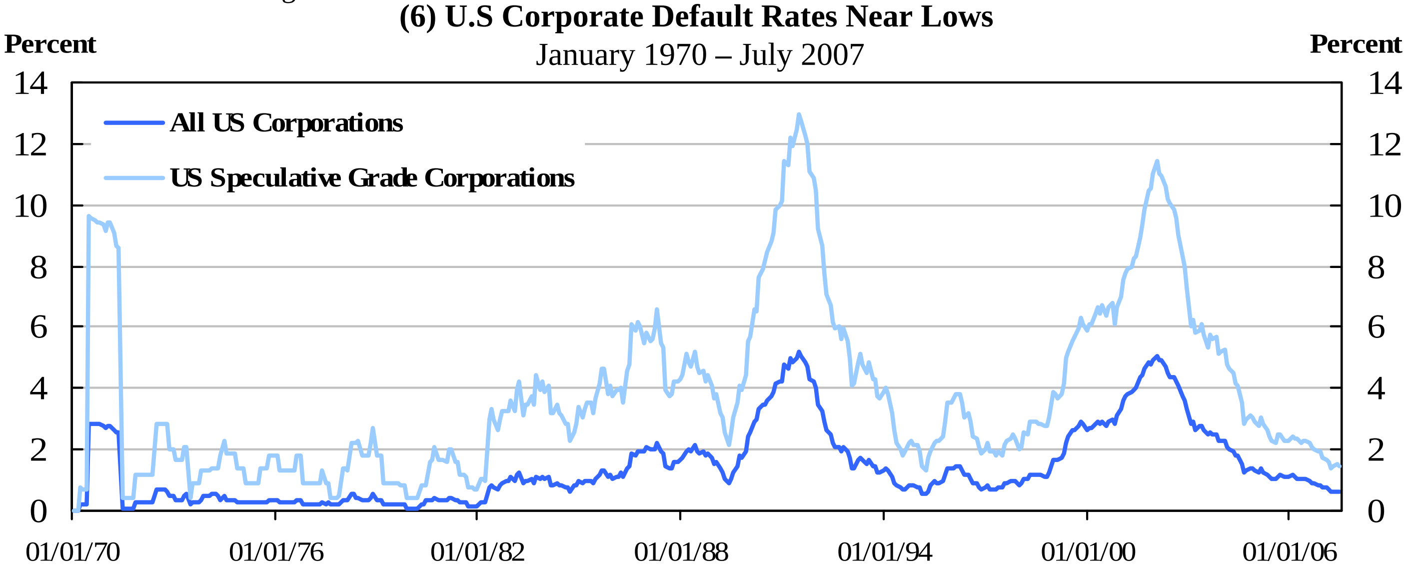
Source: Bloomberg

(5) Global Credit Default Swap Spreads Widen
January 1, 2007 – August 3, 2007



Source: Bloomberg

(6) U.S Corporate Default Rates Near Lows
January 1970 – July 2007



Source: Moody's

(7) 2007 Earnings Expectations are Rising
January 1, 2007 – July 27, 2007

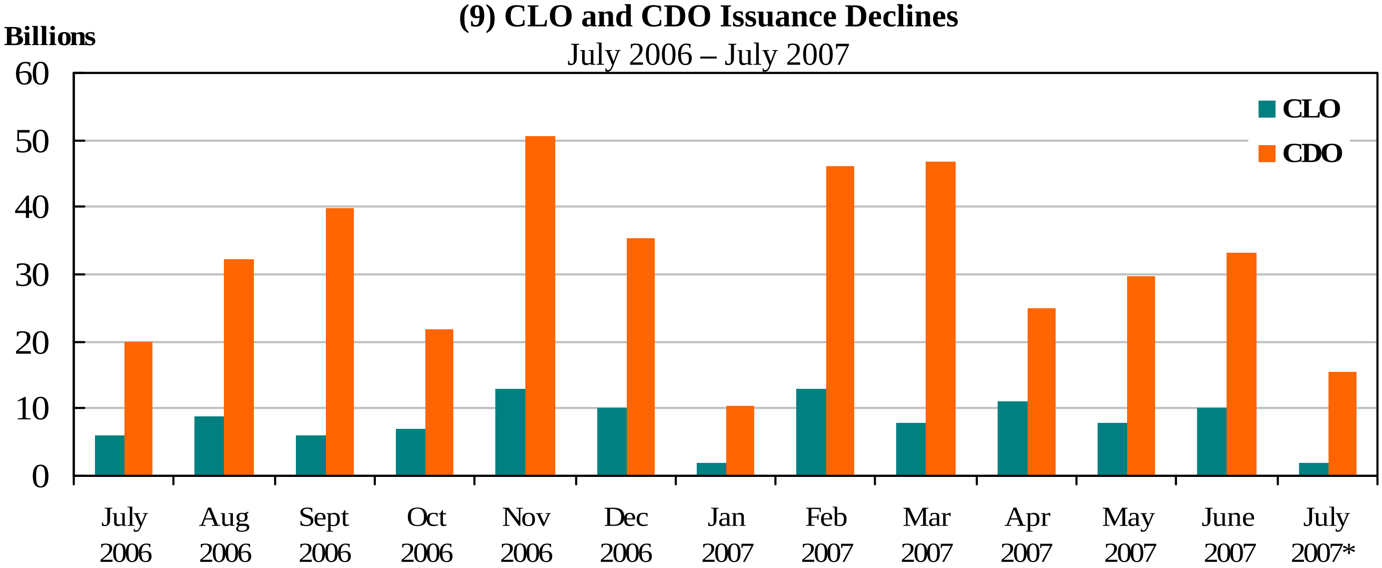
Source: Thompson Financial

(8) A Typical Capital Structure for a Cash CLO

Class	*Size (%)*	*Rating*
Class A	68	AAA
Class B	7	AA
Class C	7	A
Class D	5	BBB
Class E	4	BB
Equity	9	NR

Source: Barclays Capital

(9) CLO and CDO Issuance Declines
July 2006 – July 2007

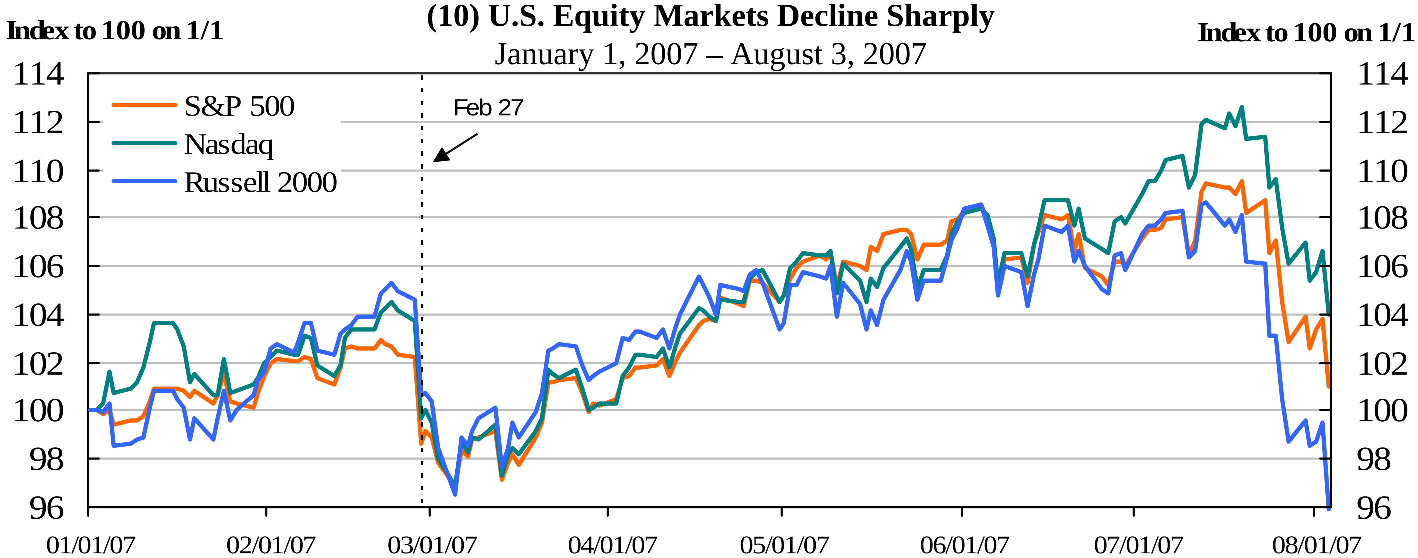


Source: Lehman Brothers and Merrill Lynch

* Only includes issuance until late July

(10) U.S. Equity Markets Decline Sharply

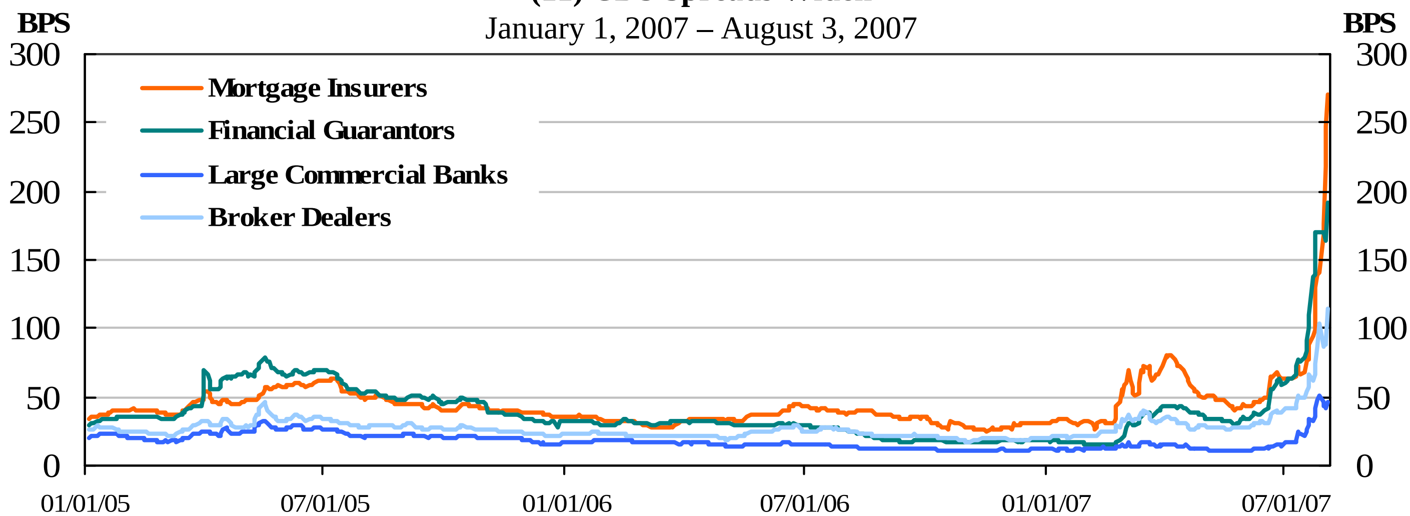
January 1, 2007 – August 3, 2007



Source: Bloomberg

(11) CDS Spreads Widen

January 1, 2007 – August 3, 2007



Source: Markit

(12) Correlation of Daily Price/Yield Changes

July 9, 2007 – August 2, 2007

Variables	2YR Yield	10YR Yield	S&P	USD/JPY	Swap Spreads	VIX	CDX IG	Merrill-HY
2YR Yield								
10YR Yield	0.95							
S&P	0.75	0.69						
USD/JPY	0.85	0.86	0.74					
Swap Spreads	-0.82	-0.70	-0.84	-0.72				
VIX	-0.72	-0.70	-0.89	-0.72	0.79			
CDX IG	0.43	0.31	0.69	0.48	-0.63	-0.65		
Merrill-HY	-0.85	-0.75	-0.74	-0.74	0.82	0.71	-0.40	

Source: Bloomberg and JP Morgan

Blue boxes denote correlations greater than 0.50 or less than -0.50

(13) Correlation of Daily Price/Yield Changes

February 27, 2007 – March 20, 2007

Variables	2YR Yield	10YR Yield	S&P	USD/JPY	Swap Spreads	VIX	CDX IG	Merrill-HY
2YR Yield								
10YR Yield	0.97							
S&P	0.84	0.76						
USD/JPY	0.90	0.84	0.88					
Swap Spreads	-0.68	-0.62	-0.77	-0.68				
VIX	-0.86	-0.79	-0.97	-0.84	0.79			
CDX IG	0.81	0.74	0.89	0.88	-0.71	-0.91		
Merrill-HY	-0.88	-0.81	-0.82	-0.85	0.70	0.81	-0.78	

Source: Bloomberg and JP Morgan

Blue boxes denote correlations greater than 0.50 or less than -0.50

(14) Correlation of Daily Price/Yield Changes

March 21, 2007 – July 6, 2007

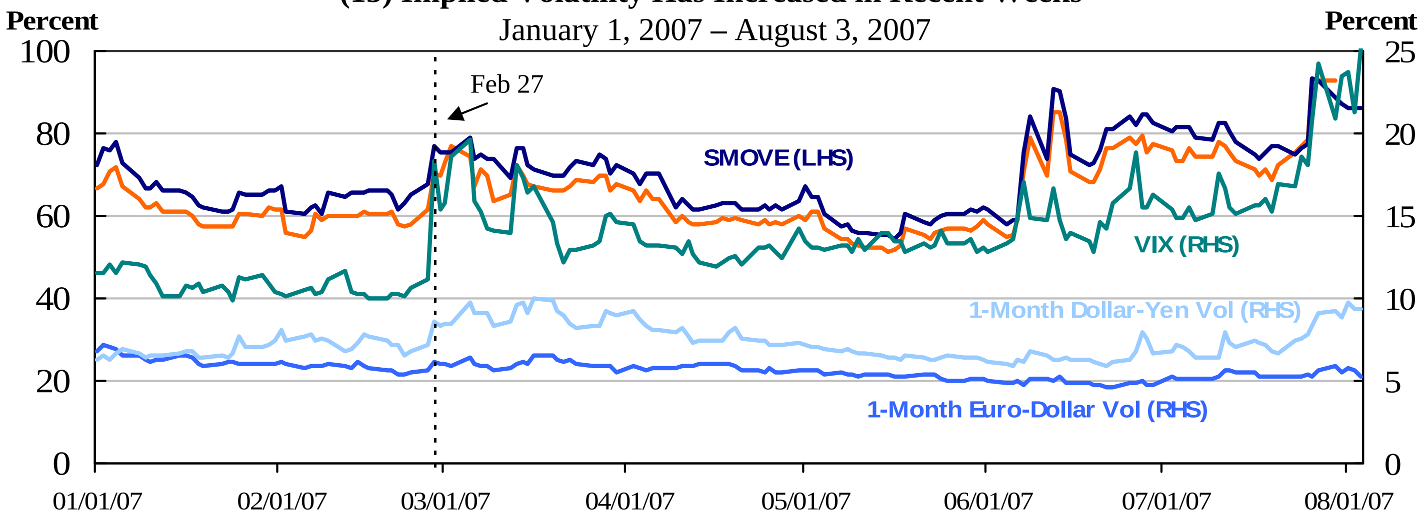
Variables	2YR Yield	10YR Yield	S&P	USD/JPY	Swap Spreads	VIX	CDX IG	Merrill-HY
2YR Yield								
10YR Yield	0.85							
S&P	-0.04	-0.23						
USD/JPY	0.33	0.19	0.34					
Swap Spreads	0.30	0.48	-0.43	-0.07				
VIX	0.01	0.14	-0.81	-0.27	0.44			
CDX IG	-0.10	-0.16	0.57	0.14	-0.37	-0.46		
Merrill-HY	-0.60	-0.62	0.01	-0.36	-0.08	-0.02	-0.12	

Source: Bloomberg and JP Morgan

Blue boxes denote correlations greater than 0.50 or less than -0.50

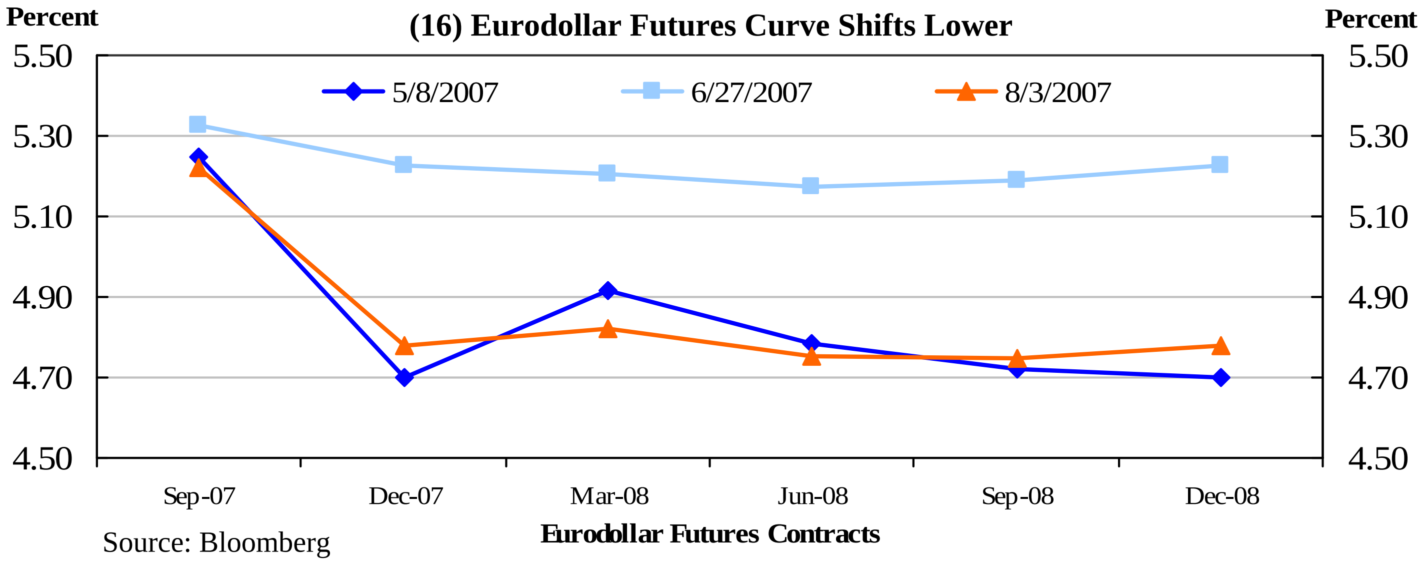
(15) Implied Volatility Has Increased in Recent Weeks

January 1, 2007 – August 3, 2007



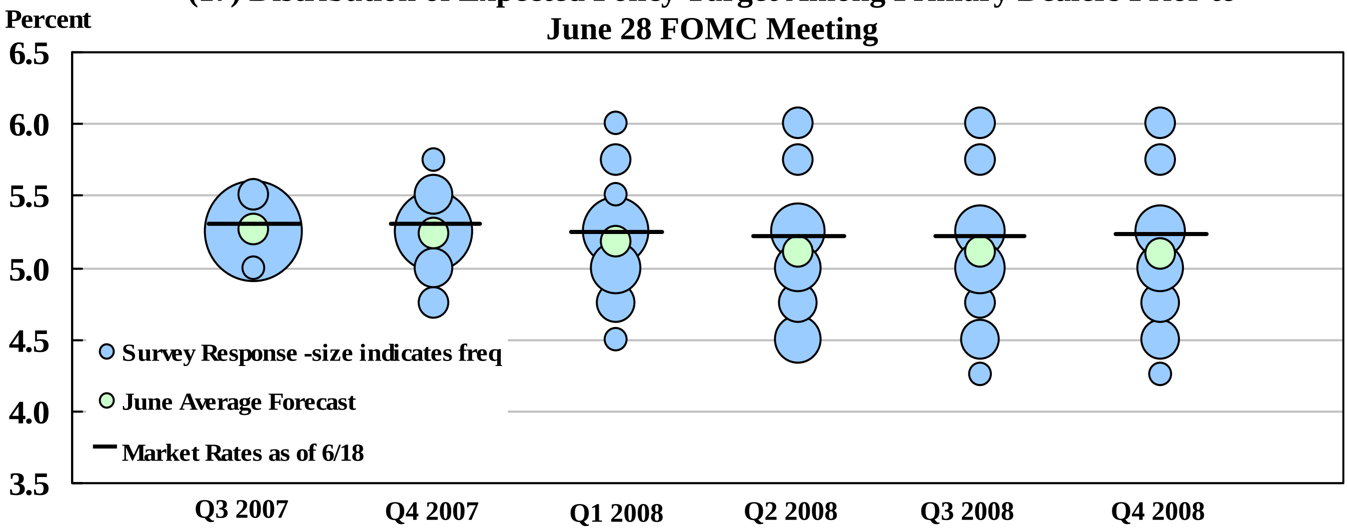
Source: Bloomberg

(16) Eurodollar Futures Curve Shifts Lower



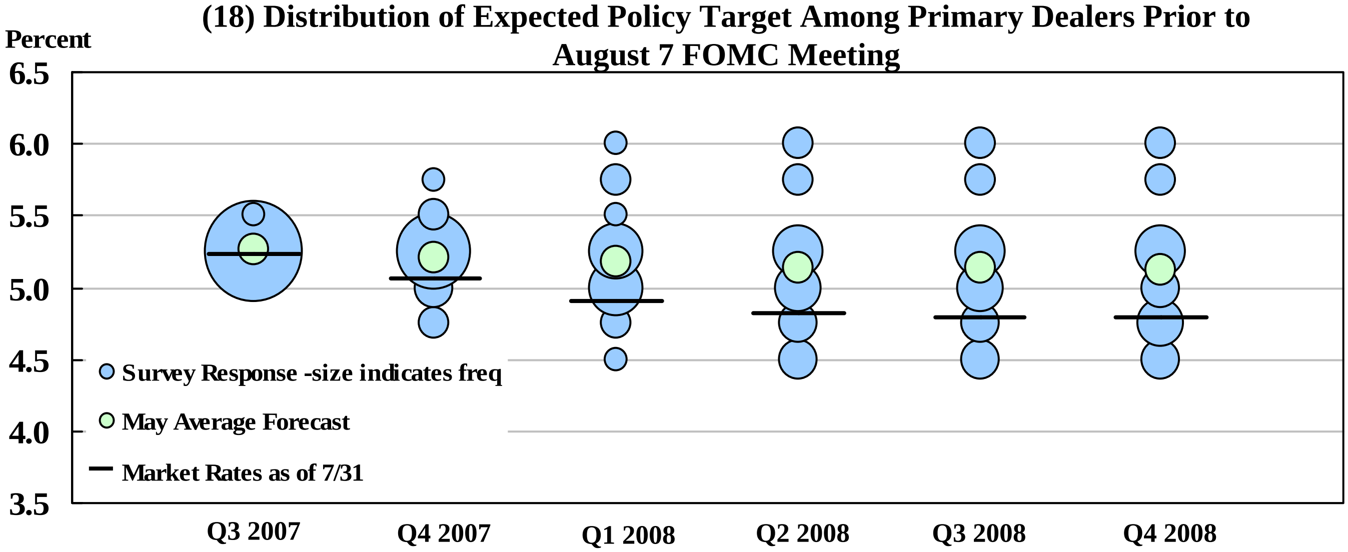
Source: Bloomberg

(17) Distribution of Expected Policy Target Among Primary Dealers Prior to June 28 FOMC Meeting



Source: Dealer Policy Survey

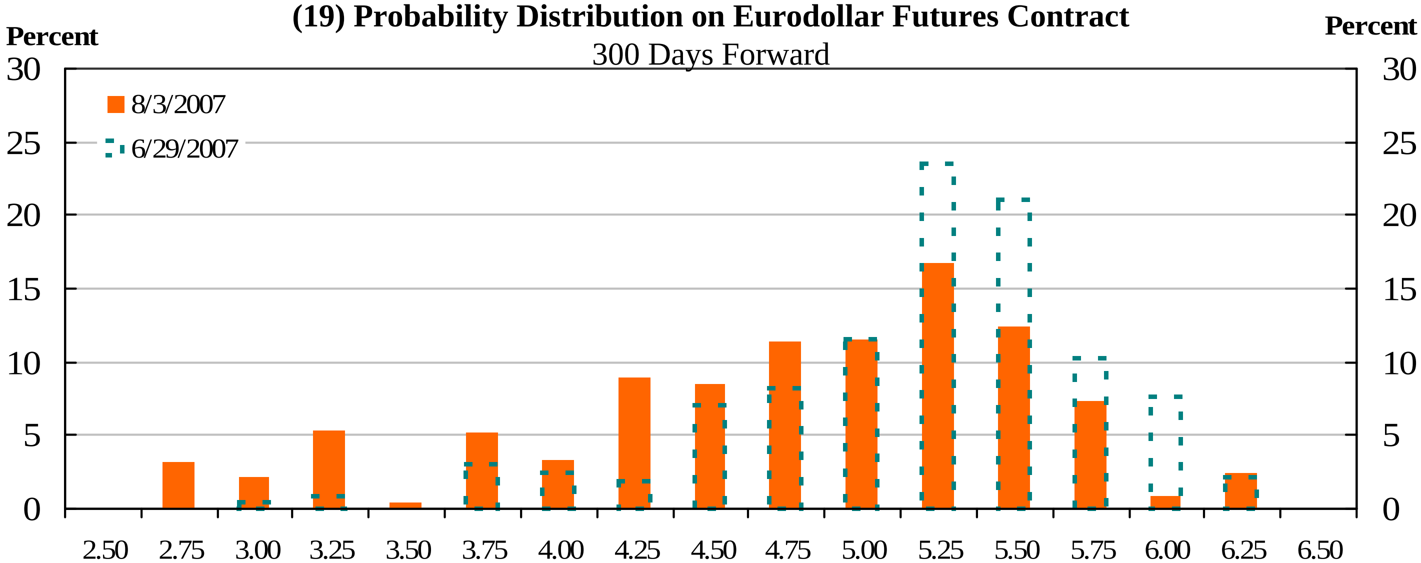
(18) Distribution of Expected Policy Target Among Primary Dealers Prior to August 7 FOMC Meeting



Source: Dealer Policy Survey

(19) Probability Distribution on Eurodollar Futures Contract

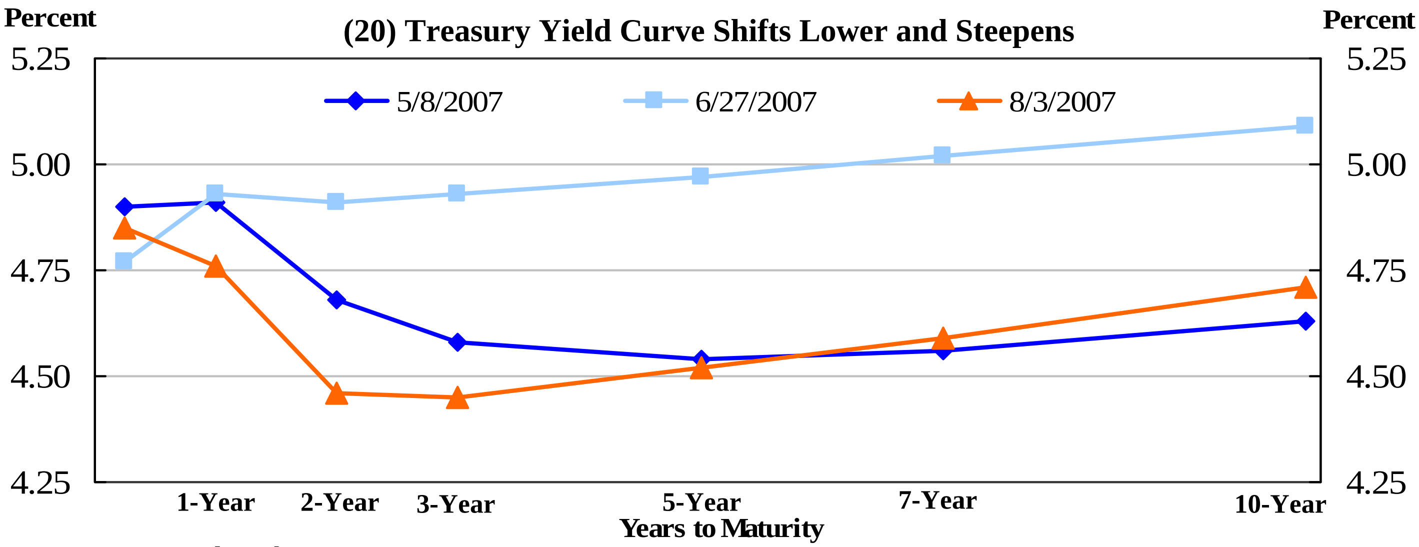
300 Days Forward



Source: CME Option

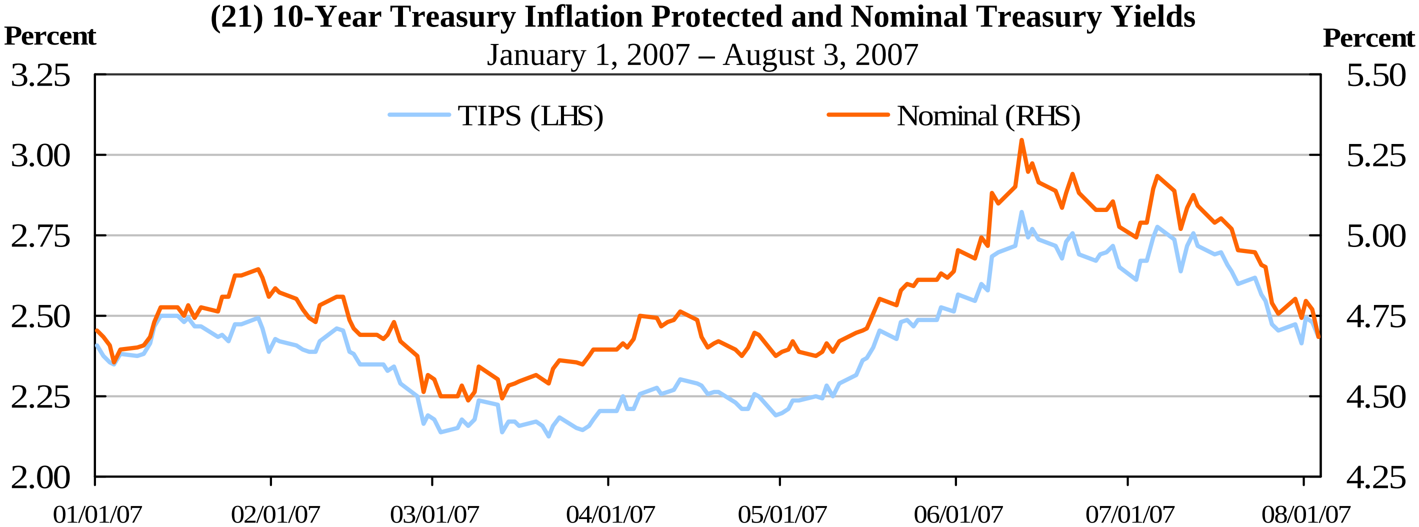
APPENDIX: Reference Exhibits

(20) Treasury Yield Curve Shifts Lower and Steepens



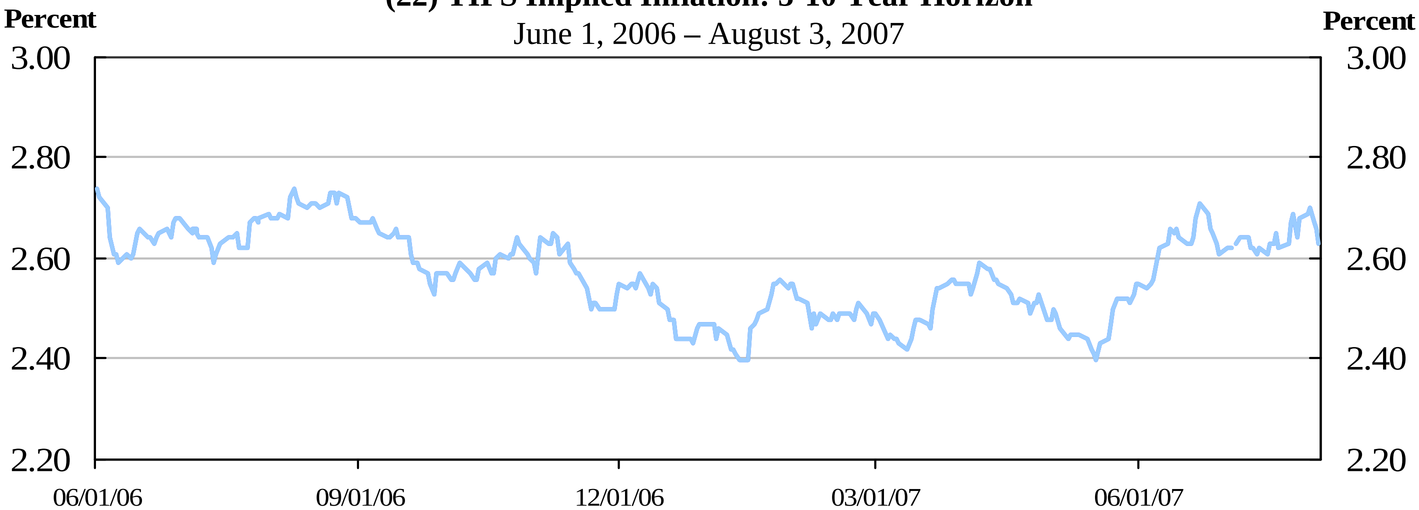
Source: Bloomberg

(21) 10-Year Treasury Inflation Protected and Nominal Treasury Yields
January 1, 2007 – August 3, 2007



Source: Bloomberg

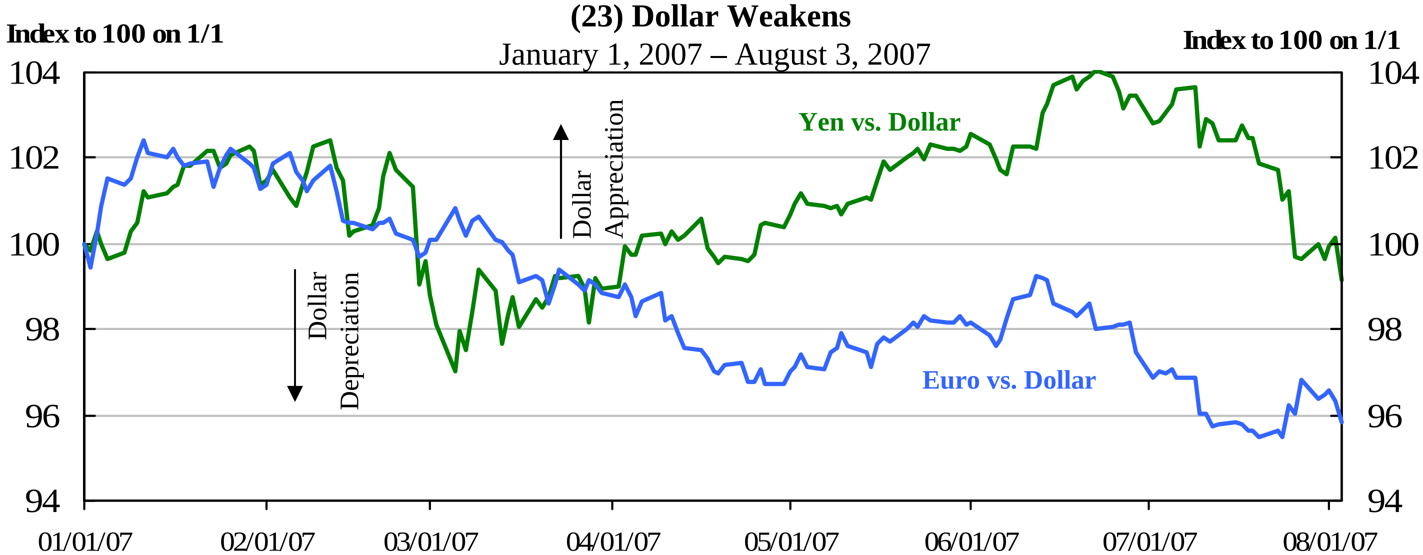
(22) TIPS Implied Inflation: 5-10 Year Horizon
June 1, 2006 – August 3, 2007



Source: Federal Reserve Board

(23) Dollar Weakens

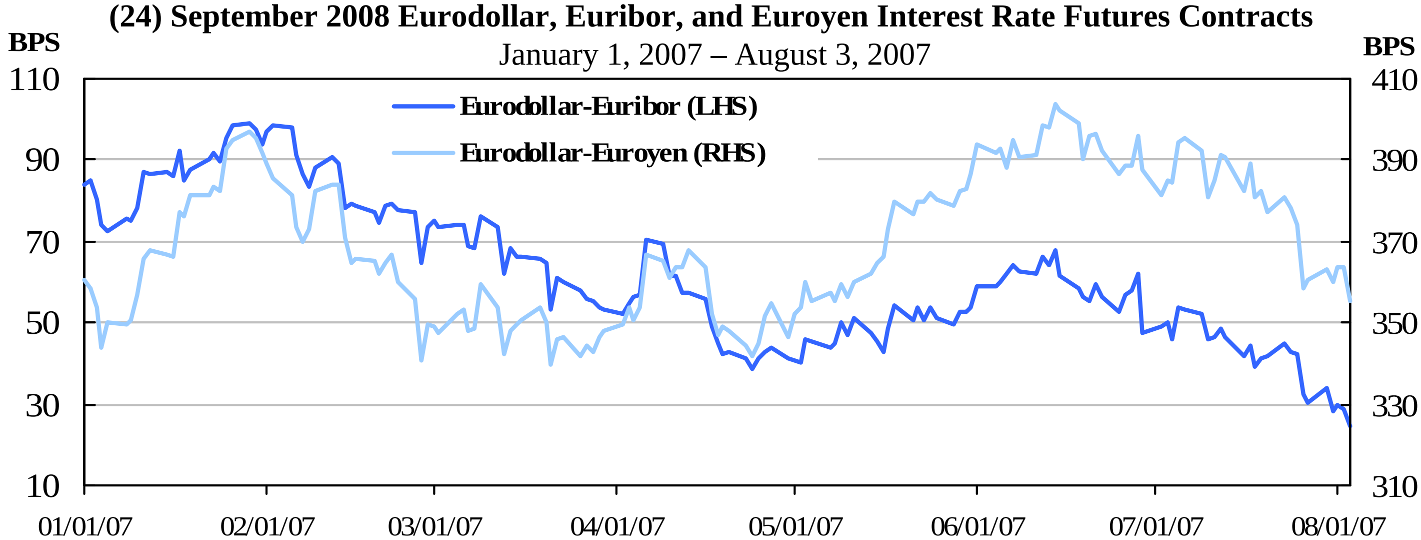
January 1, 2007 – August 3, 2007



Source: Bloomberg

(24) September 2008 Eurodollar, Euribor, and Euroyen Interest Rate Futures Contracts

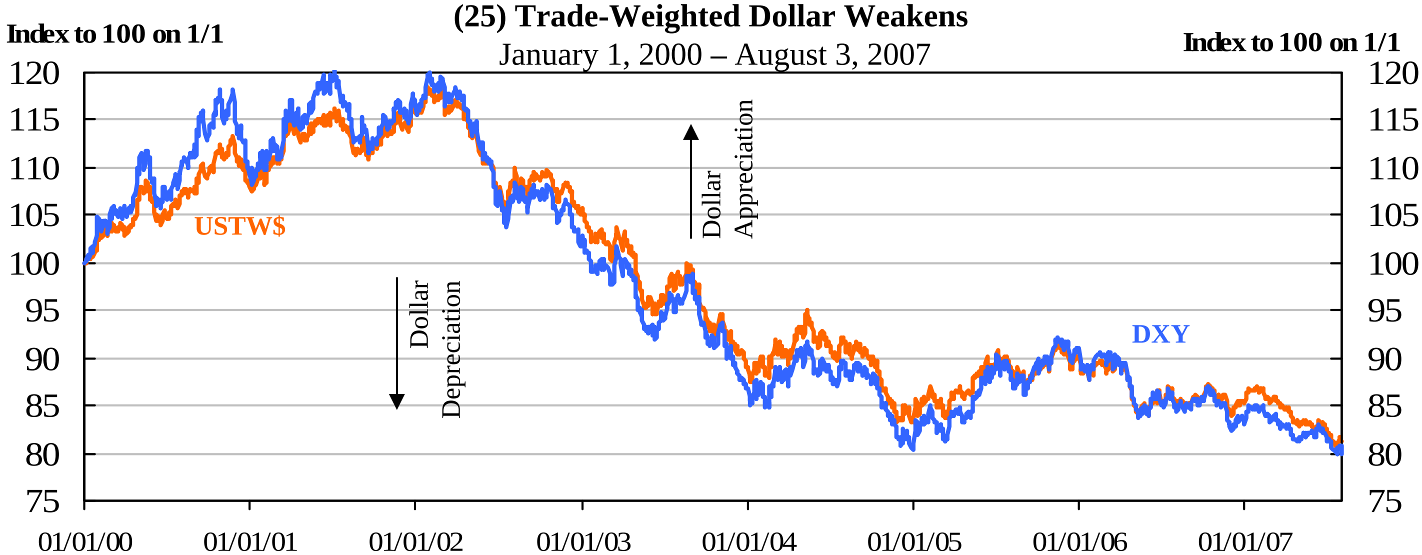
January 1, 2007 – August 3, 2007



Source: Bloomberg

(25) Trade-Weighted Dollar Weakens

January 1, 2000 – August 3, 2007



Source: Bloomberg

Appendix 2: Materials used by Mr. Madigan

Class I FOMC – Restricted Controlled (FR)

Material for

FOMC Briefing on Trial-Run Projections

Brian Madigan

August 7, 2007

Exhibit 1
August Trial Run Projections

Central Tendencies

	2007:H2	2007 [1]	2008	2009
1. GDP Growth	**2.0 to 2.7**	**2.0 to 2.3**	**2.2 to 2.7**	**2.4 to 2.7**
2. (June)		2.2 to 2.5	2.5 to 2.8	2.6 to 3.0
3. Unemployment Rate (Q4)	**4.6 to 4.7**		**4.6 to 4.8**	**4.7 to 5.0**
4. (June)	4.6 to 4.7		4.7 to 4.8	4.7 to 5.0
5. Core PCE Inflation	**1.9 to 2.1**	**1.9 to 2.0**	**1.8 to 2.0**	**1.6 to 1.9**
6. (June)		2.0 to 2.2	1.8 to 2.0	1.6 to 2.0
7. Total PCE Inflation	**2.0 to 2.9**	**3.0 to 3.4**	**1.8 to 2.1**	**1.6 to 2.0**

[1] August figures for 2007 are averages of published data for 2007: H1 and central tendency of projections.

Ranges

	2007:H2	2007 [1]	2008	2009
1. GDP Growth	**1.8 to 3.0**	**1.9 to 2.5**	**1.9 to 2.8**	**2.0 to 3.1**
2. (June)		2.0 to 2.7	2.5 to 3.0	2.0 to 3.1
3. Unemployment Rate (Q4)	**4.5 to 4.8**		**4.5 to 4.9**	**4.4 to 5.2**
4. (June)	4.6 to 4.8		4.5 to 5.0	4.4 to 5.1
5. Core PCE Inflation	**1.9 to 2.2**	**1.9 to 2.1**	**1.7 to 2.1**	**1.5 to 2.0**
6. (June)		1.9 to 2.2	1.7 to 2.1	1.5 to 2.0
7. Total PCE Inflation	**1.9 to 3.1**	**2.9 to 3.5**	**1.7 to 2.4**	**1.5 to 2.2**

[1] August figures for 2007 are averages of published data for 2007: H1 and central tendency of projections.

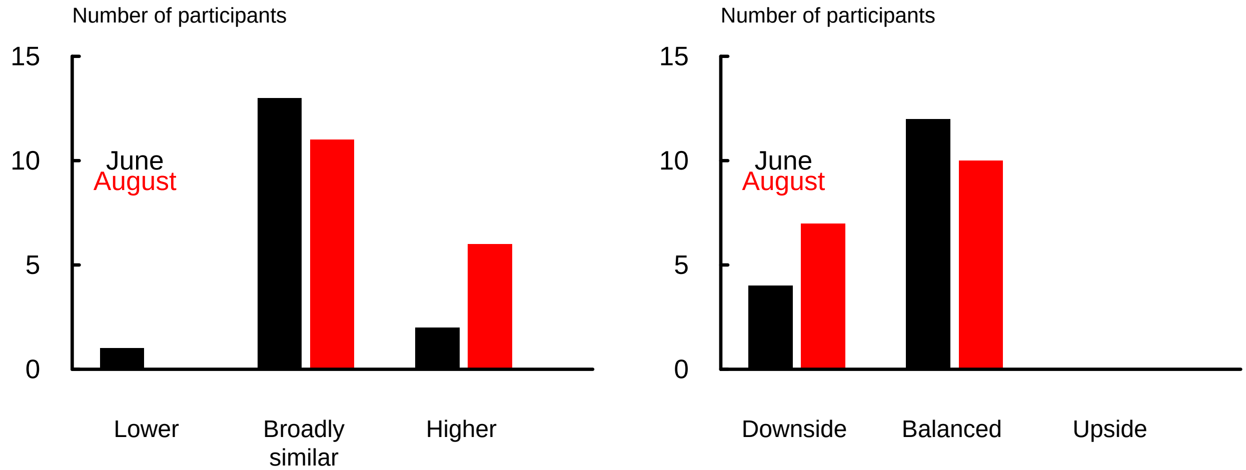
Appropriate Path of Federal Funds Differs From Greenbook?

YES	NO
5	12

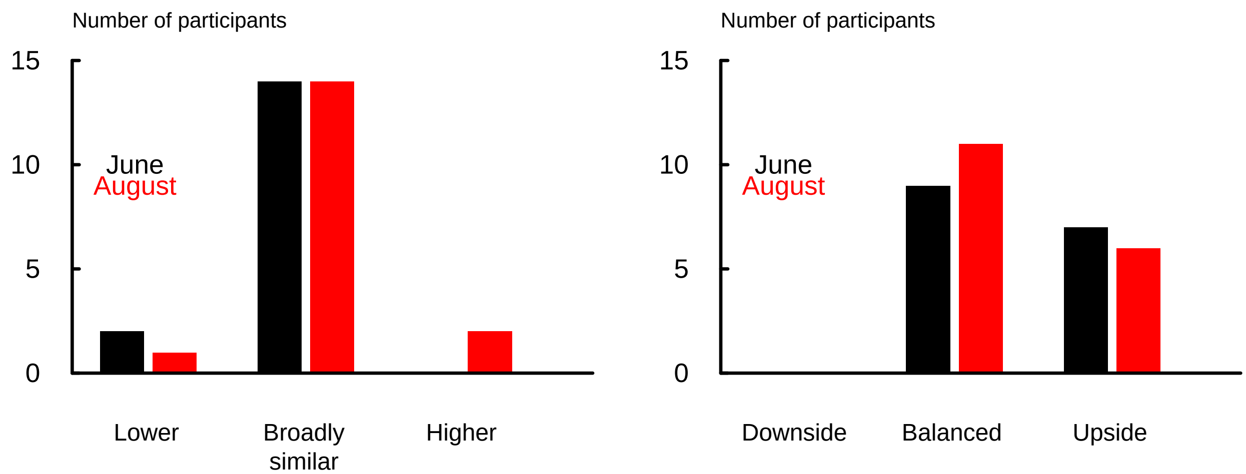
Exhibit 2
Uncertainty and Risks

Uncertainty | Risk Weighting

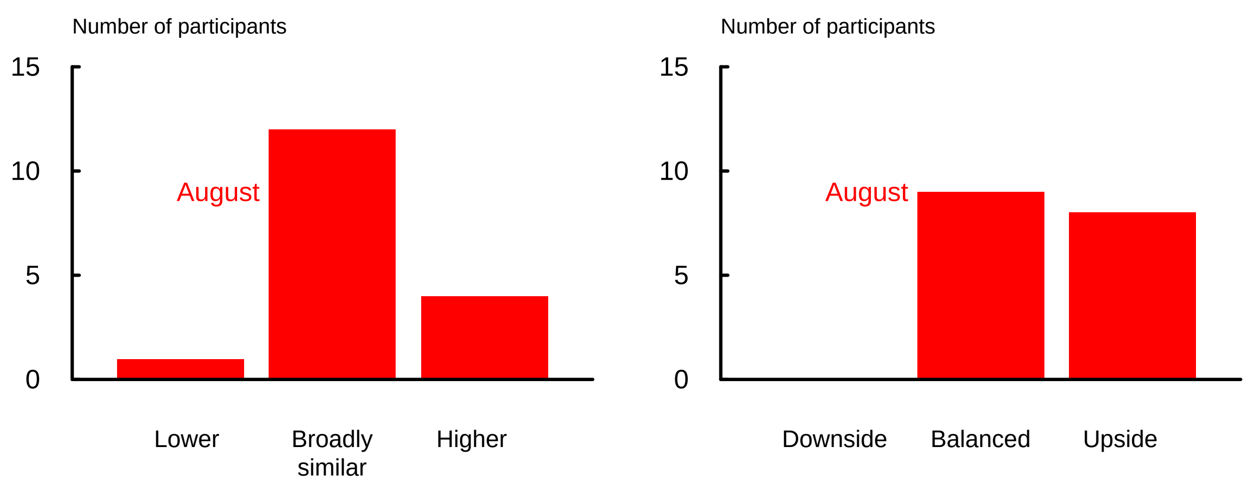
Real GDP



Core PCE Inflation



Total PCE Inflation



Appendix 3: Materials used by Mr. Madigan

Class I FOMC – Restricted Controlled (FR)

Material for

FOMC Briefing on Monetary Policy Alternatives

Brian Madigan
August 7, 2007

Exhibit 1
Recent Financial Market Developments

- Credit market conditions have deteriorated sharply
- Actual and implied volatilities have jumped
- Market participants much more cautious about credit exposures
- Originations of nonprime and jumbo mortgages and leveraged loans down steeply
- Secondary market for nonagency mortgage securities illiquid
- Increased focus on risks in asset-backed commercial paper market
- Large increases in CDS spreads for some institutions
- A few financial institutions experiencing funding difficulties
- But core financial markets generally functioning well

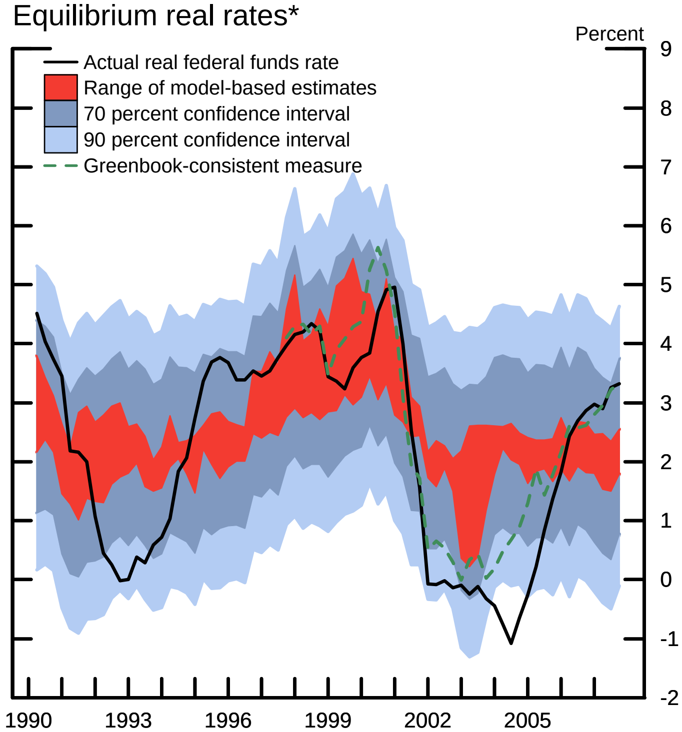
Exhibit 2
Monetary Policy Alternatives

Alternative A
25 bp easing, balanced risks

Rationale

- Increased risk of weakness in aggregate demand
  - Tighter credit conditions
  - Recent soft spending indicators
- More optimistic than staff about potential growth
- More optimistic than staff about NAIRU
- Subdued inflation readings

Equilibrium real rates*



*Explanatory notes are provided in appendix A of the Bluebook.

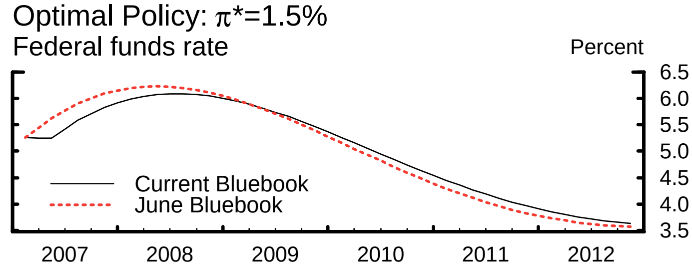
Alternative C
25 bp firming, upside risks to inflation predominant

Rationale

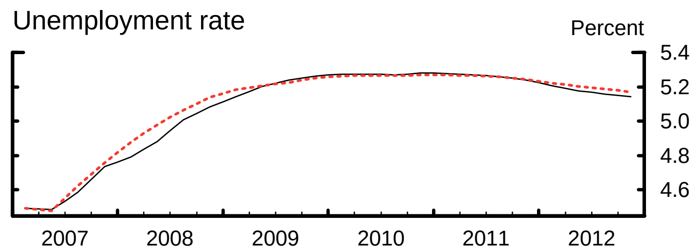
- Concur with Greenbook forecast
  - See at most modest restraint from financial developments
- But dissatisfied with the inflation outcome
- And concerned about risk that inflation could be higher

Optimal Policy: π^*=1.5%

Federal funds rate



Unemployment rate



Core PCE inflation rate

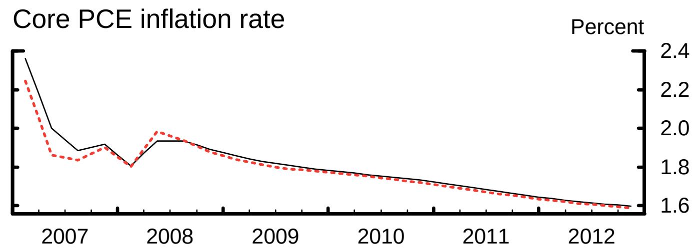


Exhibit 3

Alternative B

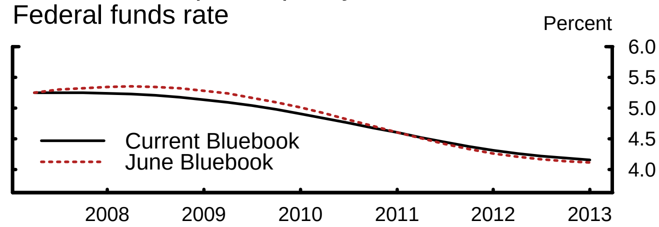
Unchanged policy stance, upside risks to inflation predominant

Rationale

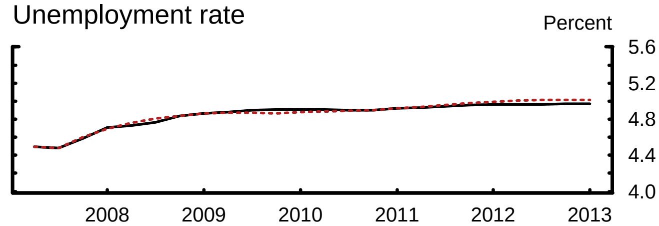
- Staff forecast seen as best modal projection and an acceptable outcome
- Consistent with staff forecast and π*=2
- Consistent with Committee's past behavior
    - Outcome-based rule
    - Forecast-based rule
- Viewed as a suitable weighting of risks to growth and inflation

Optimal policy: π*=2%

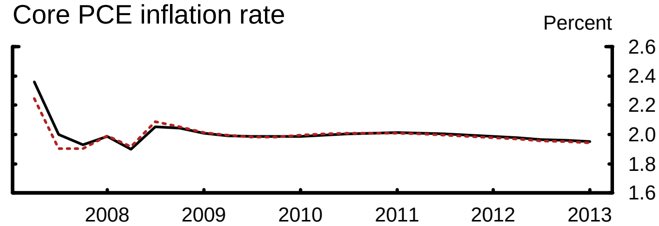
Federal funds rate



Unemployment rate



Core PCE inflation rate



Statement language (revised)

The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5-1/4 percent.

Economic growth was moderate during the first half of the year. Financial markets have been volatile in recent weeks, credit conditions have become tighter for some households and businesses, and the housing correction is ongoing. Nevertheless, the economy seems likely to continue to expand at a moderate pace over coming quarters, supported by solid growth in employment and incomes and a robust global economy.

Readings on core inflation have been relatively subdued in recent months. However, a sustained moderation in inflation pressures has yet to be convincingly demonstrated. Moreover, the high level of resource utilization has the potential to sustain those pressures.

Although the downside risks to growth have increased somewhat, the Committee's predominant policy concern remains the risk that inflation will fail to moderate as expected. Future policy adjustments will depend on the outlook for both inflation and economic growth, as implied by incoming information.

Table 1: Alternative Language for the August 2007 FOMC Announcement Revised: August 6, 2007

	June FOMC	Alternative A	Alternative B	Alternative C
Policy Decision	1. The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5¼ percent.	The Federal Open Market Committee decided today to lower its target for the federal funds rate 25 basis points to 5 percent.	The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5¼ percent.	The Federal Open Market Committee decided today to raise its target for the federal funds rate 25 basis points to 5½ percent.
Rationale	2. Economic growth appears to have been moderate during the first half of this year, despite the ongoing adjustment in the housing sector. The economy seems likely to continue to expand at a moderate pace over coming quarters.	Overall economic activity seems likely to continue to expand at a moderate pace over coming quarters. However, increased weakness in the housing sector, along with reduced availability and higher cost of credit to some households and businesses, has raised the risk that economic activity might grow less than anticipated.	Economic growth was moderate during the first half of the year. Financial markets have been volatile in recent weeks, credit conditions have become tighter for some households and businesses, and the housing correction is ongoing. Nevertheless, the economy seems likely to continue to expand at a moderate pace over coming quarters, supported by solid growth in employment and incomes and a robust global economy.	Economic growth picked up in the second quarter. The economy seems likely to expand at a moderate pace over coming quarters despite the ongoing adjustment in the housing sector.
	3. Readings on core inflation have improved modestly in recent months. However, a sustained moderation in inflation pressures has yet to be convincingly demonstrated. Moreover, the high level of resource utilization has the potential to sustain those pressures.	Readings on core inflation have been relatively subdued in recent months and core inflation is expected to be moderate over coming quarters. However, the high level of resource utilization has the potential to sustain inflation pressures.	Readings on core inflation have been relatively subdued in recent months. However, a sustained moderation in inflation pressures has yet to be convincingly demonstrated. Moreover, the high level of resource utilization has the potential to sustain those pressures.	Readings on core inflation have been relatively subdued in recent months. However, a sustained moderation in inflation pressures has yet to be convincingly demonstrated. Overall inflation has been elevated, boosted by increases in the prices of energy and other commodities. The high level of resource utilization has the potential to sustain inflation pressures.
Assessment of Risk	4. In these circumstances, the Committee's predominant policy concern remains the risk that inflation will fail to moderate as expected. Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.	After this action, the Committee judges that the downside risk to economic growth is roughly balanced by the upside risk to inflation. Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.	Although the downside risks to growth have increased somewhat, the Committee's predominant policy concern remains the risk that inflation will fail to moderate as expected. Future policy adjustments will depend on the outlook for both inflation and economic growth, as implied by incoming information.	Even after this action, the Committee's predominant policy concern remains the risk that inflation will fail to moderate as expected. Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.