Meeting of the Federal Open Market Committee
December 11, 2007 Presentation Materials -- Text Version

Appendix 1: Materials used by Mr. Dudley
Class II FOMC - Restricted FR

Page 1

Top panel
(1)

Title: Subprime Mortgage Performance Continues to Worsen
Series: Percent of subprime mortgages that are 60+ days delinquent and percent of subprime mortgages that have entered foreclosure
Horizon: January 1998 - September 2007
Description: The percentages of subprime mortgages that are 60+ days delinquent or entered foreclosure are near or above their highs since 1998.

Source: Mortgage Bankers Association and Economy.com

Middle panel
(2)

Title: Subprime 60 Day+ Delinquency Rate by Vintage
Series: ABX 06.01, 06.02, 07.01, 07.02, and average 2000-2005 ARMs
Horizon: Loan Age from 5 to 28 months
Description: The ABX 07.02 vintage has been experiencing a sharper increase in 60 day+ delinquencies earlier in the vintage as compared to past ABX vintages.

Source: Merrill Lynch, Intex

Bottom panel
(3)

Title: Prime Mortgage Performance Also Worsens
Series: Percent of prime mortgages that are 60+ days delinquent and percent of prime mortgages that have entered foreclosure
Horizon: January 1998 - September 2007
Description: The percentages of prime mortgages that are 60+ days delinquent or entered foreclosure has increased in recent months.

Source: Mortgage Bankers Association and Economy.com
Top panel
(4)

Title: Average Loss Estimated for 2006/07 ABS CDOs Based on Underlying Mortgage Loan Losses
Series: Base case and 150 percent X base case losses estimates for mezzanine and high grade 2006/07 ABS CDOs and for the super senior tranche of the mezzanine and high grade 2006/07 ABS CDOs
Horizon: N/A
Description: In the base case, the percent loss for mezzanine and high grade 2006/07 ABS CDOs and for the super senior tranche of the mezzanine and high grade 2006/07 ABS CDOs are expected to be relatively small as compared to 150 percent X base case where they are expected to be substantial.
Source: UBS

Middle panel
(5)

Title: Estimated Losses for Super Senior Tranches of 2006/07 Mezzanine ABS CDOs
Series: Base case and 150 percent X base case losses for super senior tranches of 2006/07 mezzanine ABS CDOs
Horizon: N/A
Description: In the base case, the number of super senior tranches of 2006/07 mezzanine ABS CDOs that are expected to experience significant losses is minimal but in the 150 percent X base case a large portion of the sample bonds will experience substantial losses.
Source: UBS

Bottom panel
(6)

Title: Financial Guarantors' CDS Spreads and Equity Prices
Series: Credit default swap spreads and equity prices for Ambac and MBIA
Horizon: January 1, 2007 - December 7, 2007
Description: While credit default swap spreads widened for Ambac and MBIA, their equity prices declined.
Source: Markit
**Middle panel**  
(8)

**Title:** Fannie Mae and Freddie Mac's CDS Spreads and Equity Prices  
**Series:** Credit default swap spreads and equity prices for Fannie Mae and Freddie Mac  
**Horizon:** January 1, 2007 - December 7, 2007  
**Description:** While credit default swap spreads widened for Fannie Mae and Freddie Mac, their equity prices declined.  

Source: Markit

**Bottom panel**  
(9)

**Title:** Mortgage Insurers' CDS Spreads and Equity Prices  
**Series:** Credit default swap spreads and equity prices for MGIC Investment Corp, PMI Group, and Radian  
**Horizon:** January 1, 2007 - December 7, 2007  
**Description:** While credit default swap spreads widened for MGIC Investment Corp, PMI Group, and Radian, their equity prices declined.  

Source: Markit

**Page 4**

**Top panel**  
(10)

**Title:** Corporate Credit Spreads Widen  
**Series:** Investment grade and high-yield debt spreads  
**Horizon:** January 1, 2007 - December 7, 2007  
**Description:** Investment grade and high-yield debt spreads widened over the intermeeting period.  

Source: Bloomberg

**Middle panel**  
(11)

**Title:** Probabilities for Policy Rate Outcomes for December FOMC Meeting  
**Series:** Probabilities for a 4.00, 4.25, or 4.50 percent target rate at the December 11 FOMC meeting  
**Horizon:** November 1, 2007 - December 7, 2007  
**Description:** In the days leading up to the December FOMC meeting, probabilities for 4.25 percent target rate increased sharply while probabilities declined significantly for 4.50 percent target rate.  

Source: Cleveland Fed

**Bottom panel**  
(12)

**Title:** Fed Funds Futures Rate Expectations Shift Lower  
**Series:** Eurodollar futures curve as of 9/17/2007, 10/30/2007, and 12/7/2007
Horizon: September 17, 2007 - December 7, 2007
Description: The fed funds futures curve has shifted lower since the last FOMC meeting.
Source: Bloomberg

Page 5

Top panel
(13)

Title: Eurodollar Futures Curve Shifts Lower
Horizon: September 17, 2007 - December 7, 2007
Description: The Eurodollar futures curve has shifted lower since the last FOMC meeting.
Source: Bloomberg

Middle panel
(14)

Title: Distribution of Expected Policy Target Among Primary Dealers Prior to December 11 FOMC Meeting
Series: Dealer expectations for policy target rate by quarter, average forecast for policy target by quarter, and market rate for policy expectation by quarter as of 12/3/2007
Horizon: Q4 2007 - Q4 2008
Description: There is less dispersion regarding where dealers expect the policy rate to be in Q4 2007. Dealers on average expect higher rates than what is currently priced into Eurodollar futures for 2008.
Source: Dealer Policy Survey

Bottom panel
(15)

Title: Distribution of Expected Policy Target Among Primary Dealers Prior to October 31 FOMC Meeting
Series: Dealer expectations for policy target rate by quarter, average forecast for policy target by quarter, and market rate for policy expectation by quarter as of 10/23/2007
Horizon: Q4 2007 - Q4 2008
Description: Compared to the December policy survey, there is more dispersion of policy rate expectation for Q4 2007. Dealers on average expect slightly higher rates than what is currently priced into Eurodollar futures for 2008.
Source: Dealer Policy Survey

Page 6

Top panel
(16)
Title: TIPS Inflation Compensation: 5-10 Year Horizon
Series: Federal Reserve Board's 5-10 Year horizon TIPS inflation compensation and Barclays 5-10 Year horizon TIPS inflation compensation
Horizon: June 1, 2006 - December 7, 2007
Description: TIPS inflation compensation over a 5-10 year horizon has increased since June as measured by both the Federal Reserve Board and Barclays.
Source: Federal Reserve Board and Barclays Capital

Middle panel

(17)

Title: Day-to-Day Effective Rate Remains Volatile, But Cumulatively Close to Target Rate
Series: Rolling cumulative effective rate since 11/1, target fed funds rate, and effective fed funds rate
Horizon: November 1, 2007 - December 7, 2007
Description: The rolling cumulative effective rate since 11/1 has been trending closer to the target rate during the intermeeting period.
Source: Federal Reserve Bank of New York

APPENDIX: Reference Exhibits

Page 7

Top panel

(18)

Title: Demand for Downside Protection on S&P 500
Series: Put-Call Equity Risk Reversal
Horizon: January 1, 2007 - December 7, 2007
Description: Demand for downside protection on the S&P 500 equity index has declined in the intermeeting period.
Source: OptionMetrics

Middle panel

(19)

Title: U.S. Equity Indices Partially Reverse Sharp Decline
Series: S&P 500 index, Nasdaq index, and Russell 2000 index
Horizon: January 1, 2007 - December 7, 2007
Description: U.S. equity indices have partially reversed the sharp decline seen soon after the October FOMC meeting.
Source: Bloomberg

Bottom panel

(20)

Title: Equity Earning Expectations
Series: 2007 and 2008 S&P 500 bottom-up equity analyst forecasts
Horizon: January 1, 2007 - November 30, 2007
Description: While equity earning expectations have declined for 2007, the earning forecast for 2008 has risen.
Top panel

Title: Global Credit Default Swap Spreads
Series: ITRAXX Crossover Series 7 spread and LCDX spread
Horizon: March 1, 2007 - December 7, 2007
Description: ITRAXX crossover spreads and LCDX spreads have widened modestly since the October FOMC meeting.

Source: Bloomberg

Middle panel

Title: Implied Volatility Stays High
Series: VIX index, SMOVE 1-month index, 1-month Euro-Dollar volatility index, and 1-month Dollar-Yen volatility index
Horizon: January 1, 2007 - December 7, 2007
Description: During the inter-meeting period, implied volatility across asset classes has increased slightly in recent weeks.

Source: Bloomberg

Bottom panel

Title: Treasury Yield Curve Shifts Lower and Continues to Steepen
Horizon: September 17, 2007 - December 7, 2007
Description: The Treasury yield curve has shifted lower and steepened since the last FOMC meetings.

Source: Bloomberg

Appendix 2: Materials used by Mr. Madigan

Material for FOMC Briefing on Monetary Policy Alternatives
Brian Madigan
December 11, 2007

Class I FOMC - Restricted Controlled (FR)

Table 1: Alternative Language for the December 2007 FOMC Announcement
**October FOMC**

<table>
<thead>
<tr>
<th>Policy Decision</th>
<th>Alternative A</th>
<th>Alternative B</th>
<th>Alternative C</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The Federal Open Market Committee decided today to lower its target for the federal funds rate 25 basis points to 4-1/2 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>4</strong> percent.</td>
<td>The Federal Open Market Committee decided today to keep its target for the federal funds rate at <strong>4-1/2</strong> percent.</td>
<td></td>
</tr>
</tbody>
</table>

**Rationale**

2. Economic growth was solid in the third quarter, and strains in financial markets have eased somewhat on balance. However, the pace of economic expansion will likely slow in the near term, partly reflecting the intensification of the housing correction. Today's action, combined with the policy action taken in September, should help forestall some of the adverse effects on the broader economy that might otherwise arise from the disruptions in financial markets and promote moderate growth over time.

**Incoming information suggests that the housing correction has intensified and that growth in business and consumer spending is softening. Moreover, strains in financial markets have increased in recent weeks. Overall, the outlook for the economy has weakened somewhat, and downside risks to growth have increased. Today's action, combined with the policy actions taken earlier, should help promote moderate growth over time.**

3. Readings on core inflation have improved modestly this year, but recent increases in energy and commodity prices, among other factors, may put renewed upward pressure on inflation. In this context, the Committee judges that some inflation risks remain, and it will continue to monitor inflation developments carefully.

**Readings on core inflation have improved modestly this year, but elevated energy and commodity prices, among other factors, may put upward pressure on inflation. In this context, the Committee judges that some inflation risks remain, and it will continue to monitor inflation developments carefully.**

4. The Committee judges that, after this action, the upside risks to inflation roughly balance the downside risks to growth. The Committee will continue to assess the effects of financial and other developments on economic prospects and will act as needed to foster price stability and sustainable economic growth.

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**Assessment of Risk**

4. The Committee judges that, after this action, the upside risks to inflation roughly balance the downside risks to growth. The Committee will continue to assess the effects of financial and other developments on economic prospects and will act as needed to foster price stability and sustainable economic growth.

**Recent developments, including the deterioration in financial market conditions, have increased the uncertainty surrounding the outlook for economic growth and inflation. The Committee will continue to assess the effects of financial and other developments on economic prospects and will act as needed to foster price stability and sustainable economic growth.**

**The Committee views the downside risks to growth as the predominant policy concern. Future policy adjustments will depend on the outlook for both inflation and economic growth, as implied by incoming information.**