Meeting of the Federal Open Market Committee
September 16, 2008 Presentation Materials -- Text Version

Appendix 1: Materials used by Mr. Dudley

Class II FOMC - Restricted FR

Page 1

Top panel

(1)

Title: Investment Bank Equity Prices
Series: Equity Prices for Morgan Stanley, Goldman Sachs, Lehman Brothers, and Merrill Lynch
Horizon: August 1, 2007 - September 15, 2008
Description: Equity prices for Morgan Stanley, Goldman Sachs, Lehman Brothers, and Merrill Lynch decline. Lehman Brothers underperforms compared to the other major investment banks.

Source: Bloomberg

Middle panel

(2)

Title: Investment Bank CDS Spreads
Series: Credit Default Swap Spreads for Morgan Stanley, Goldman Sachs, Lehman Brothers, and Merrill Lynch
Horizon: August 1, 2007 - September 15, 2008
Description: Credit default swap spreads for Morgan Stanley, Goldman Sachs, Lehman Brothers, and Merrill Lynch widen.

Source: Markit

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Top panel

(3)

Title: Large Commercial Bank Equity Prices
Series: Equity Prices for JPMorgan Chase, Citibank, and Bank of America
Horizon: August 1, 2007 - September 15, 2008
Description: Equity prices for JPMorgan Chase, Citibank, and Bank of America remain relatively unchanged since the August FOMC meeting.
Middle panel
(4)

Title: Large Commercial Bank CDS Spreads
Series: Credit Default Swap Spreads for JPMorgan Chase, Citigroup, and Bank of America
Horizon: August 1, 2007 - September 15, 2008
Description: Credit default swap spreads for JPMorgan Chase, Citigroup, and Bank of America widen.

Source: Markit

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Top panel
(5)

Title: Regional Bank Equity Prices
Series: Equity Prices for Washington Mutual, Wachovia, and Wells Fargo
Horizon: August 1, 2007 - September 15, 2008
Description: Washington Mutual's equity price declines during the intermeeting period, while Wells Fargo's equity price increases and Wachovia's equity price remains relatively unchanged.

Source: Bloomberg

Middle panel
(6)

Title: Regional Bank CDS Spreads
Series: Credit Default Swap Spreads for Washington Mutual, Wachovia, and Wells Fargo
Horizon: August 1, 2007 - September 15, 2008
Description: The credit default swap spread for Washington Mutual widened substantially during the intermeeting period.

Source: Markit

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Top panel
(7)

Title: Agency Debt Spreads
Series: Fannie Mae 5- and 10-Year Debt Spreads and Freddie Mac 5- and 10-Year Debt Spreads
Horizon: March 1, 2008 - September 15, 2008
Description: Agency debt spreads decline during the intermeeting period.

Source: Bloomberg

Middle panel
(8)

Title: Mortgage Option Adjusted Spreads
Series: Mortgage Option Adjusted Spreads to Treasury yield, Agency Debt, and Interest Rate Swap
Horizon: January 1, 2007 - September 12, 2008
Description: Mortgage option adjusted spreads decline during the intermeeting period.
Source: Lehman Brothers

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Top panel
(9)

Title: Fannie Mae and Freddie Mac Equity Prices
Series: Equity Prices for Fannie Mae and Freddie Mac
Horizon: August 1, 2007 - September 15, 2008
Description: Equity prices for Fannie Mae and Freddie Mac continue to decline.
Source: Bloomberg

Middle panel
(10)

Title: Fannie Mae and Freddie Mac CDS Spreads
Series: Senior and Subordinated Credit Default Swap Spreads for Fannie Mae and Freddie Mac
Horizon: August 1, 2007 - September 12, 2008
Description: Subordinated credit default swap spreads for Fannie Mae and Freddie Mac widened since the August FOMC meeting, while senior credit default swap spreads for Fannie Mae and Freddie Mac narrowed modestly during the intermeeting period.
Source: Markit

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Top panel
(11) Changes in Financial Conditions
1989-2008

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fed Funds Target Rate (bps)</td>
<td>-325</td>
<td>-525</td>
<td>-675</td>
</tr>
<tr>
<td>Interest Rate Levels (bps)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3-Month LIBOR</td>
<td>-254</td>
<td>-529</td>
<td>-694</td>
</tr>
<tr>
<td>30-Year Fixed Conforming Mortgage</td>
<td>-76</td>
<td>-152</td>
<td>-301</td>
</tr>
<tr>
<td>Moody's Baa-Rated Corporate Index</td>
<td>52</td>
<td>-66</td>
<td>-199</td>
</tr>
<tr>
<td>Interest Rate Swap Spreads (bps)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3-Month LIBOR - OIS</td>
<td>75</td>
<td>-12</td>
<td>-2</td>
</tr>
<tr>
<td>30Y Fixed Mortgage - 5Y Treasury</td>
<td>85</td>
<td>64</td>
<td>76</td>
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Changes Across Monetary Policy Easing Cycles*

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>Moody's Baa Corporate Index - 10Y Treasury</td>
<td>154</td>
<td>60</td>
<td>71</td>
</tr>
</tbody>
</table>

**Exchange Rate (%)**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal Trade-Weighted Dollar</td>
<td>-2</td>
<td>-8</td>
<td>-17</td>
</tr>
</tbody>
</table>

**Household Wealth (%)**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>-14</td>
<td>-29</td>
<td>35</td>
</tr>
<tr>
<td>Case-Shiller 10-City Home Price Index</td>
<td>-17</td>
<td>25</td>
<td>-3</td>
</tr>
</tbody>
</table>

**Lending Standards (%)**

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in Net % Tightening</td>
<td>58</td>
<td>-6</td>
<td>-30</td>
</tr>
</tbody>
</table>

* Dates for the cycles are: 09/2007-present, 01/2001-11/2002, and 06/1989-09/1992. All data is end-of-month. **Lending standards are the simple average of the net % of respondents to the Senior Loan Officer Survey reporting tightening standards on C&I, commercial real estate, mortgage, credit card, and other consumer loans. Changes for 1989-1994 are based on a start-date of July 1990, when the data is first available.**

Source: Federal Reserve Bank of New York

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**Top panel**

(12)

**Title:** U.S. Equity Indices  
**Series:** S&P 500 Index, Nasdaq Index, and S&P 500 Financials Index  
**Horizon:** August 1, 2007 - September 15, 2008  
**Description:** U.S. equity indices are relatively unchanged during the intermeeting period.

Source: Bloomberg

**Middle panel**

(13)

**Title:** Global Credit Default Swap Spreads  
**Series:** ITRAXX Crossover Series 7 and Baa CDS spread  
**Horizon:** August 1, 2007 - September 12, 2008  
**Description:** ITRAXX Crossover and Baa CDS spread widen since the August FOMC meeting.

Source: Bloomberg, Lehman Brothers

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**Top panel**

(14)

**Title:** One-Month Libor-OIS Spreads  
**Series:** Spreads between One-Month Libor Rates and One-Month Overnight Index Swap Rates for U.S., U.K., and Euro Area  
**Horizon:** July 1, 2007 - September 15, 2008
**Description**: The spread between the one-month Libor rate and the one-month overnight index swap rate widens in the U.S., while remaining relatively unchanged in the U.K. and the Euro area.

Source: Bloomberg

**Middle panel**

(15)

**Title**: Three-Month Libor-OIS Spreads

**Series**: Spreads between Three-Month Libor Rate and Three-Month Overnight Index Swap Rates for U.S., U.K., and Euro Area

**Horizon**: July 1, 2007 - September 15, 2008

**Description**: Spreads between three-month Libor rates and three-month overnight index swap rates widen in the U.S., U.K. and Euro area.

Source: Bloomberg

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**Top panel**

(16)

**Title**: TAF Auction Results

**Series**: TAF Bid-to-Cover Ratio and Spread between the TAF Stop-Out Rate and Minimum Bid Rate

**Horizon**: December 20, 2007 - September 11, 2008

**Description**: The spread between the TAF stop-out rate and the minimum bid rate is wider for the 84-day TAF than for the traditional 28-day TAF.

Source: Federal Reserve Board

**Middle panel**

(17) Federal Reserve Term Securities Lending Facility Options Program Results

**August 27, 2008 - September 10, 2008**

<table>
<thead>
<tr>
<th>Auction Date</th>
<th>Auction Settlement</th>
<th>Term</th>
<th>Collateral</th>
<th>Amount</th>
<th>Minimum Fee Rate</th>
<th>Stop-out Rate</th>
<th>Propositions</th>
<th>Bid/Cover</th>
</tr>
</thead>
<tbody>
<tr>
<td>8/27/2008</td>
<td>9/25/2008</td>
<td>7 Days</td>
<td>Schedule 2</td>
<td>$50 b</td>
<td>0.01%</td>
<td>0.02%</td>
<td>$51.0 b</td>
<td>2.04</td>
</tr>
<tr>
<td>9/10/2008</td>
<td>9/25/2008</td>
<td>7 Days</td>
<td>Schedule 2</td>
<td>$50 b</td>
<td>0.01%</td>
<td>0.03%</td>
<td>$54.5 b</td>
<td>2.18</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Bank of New York

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**Top panel**

(18)

**Title**: Commodity Prices

**Series**: GSCI Spot, Energy, Agriculture, and Industrial Metals Indices

**Horizon**: January 1, 2008 - September 15, 2008

**Description**: Commodity prices decline since the August FOMC meeting.

Source: Bloomberg
Middle panel

Title: Dollar Appreciates Against Euro and Great British Pound
Series: Yen-USD, Euro-USD, and Great British Pound-USD
Horizon: January 1, 2008 - September 15, 2008
Description: The U.S. dollar appreciates against the Euro and Great British Pound, while depreciating against the Yen.

Source: Bloomberg

Bottom panel

Title: Dollar Strengthens Against Euro Despite Worsening Interest Rate Differentials
Series: Euro-USD and Spread between the December 2009 3-Month Euribor Rate and the December 2009 3-Month Eurodollar Futures Rate
Horizon: January 1, 2007 - September 15, 2008
Description: The dollar has appreciated against the Euro despite the widening spread between Euribor and Eurodollar futures.

Source: Bloomberg

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Top panel

Title: Correlation Between Weekly Changes in S&P GSCI Index and the Trade-Weighted Dollar
Series: Six-Month Rolling Correlation of Percent Changes in the Weekly Average of Daily Closing Prices of the S&P GSCI Spot Index and the Trade-Weighted Dollar Spot Index, and the One-Year Moving Average of this Correlation
Horizon: January 1, 1988 - September 15, 2008
Description: The correlation between the changes in the S&P GSCI Index and the trade-weighted dollar has been increasing since the beginning of 2002.

Source: Bloomberg

Middle panel

Title: Spread Between Nominal and Inflation Protected Treasury Yields
Series: Five- and Ten-Year Spreads between Nominal and Inflation Protected Treasury Yields
Horizon: January 1, 2007 - September 15, 2008
Description: The spreads between 5- and 10-year nominal and inflation-protected Treasury yields have been declining since the beginning of July 2008.

Source: Bloomberg

Bottom panel

Title: TIPS Implied Average Rate of Inflation: 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:** January 1, 2007 - September 12, 2008  
**Description:** TIPS inflation compensation over a 5-10 year horizon has declined since the August FOMC meeting as measured by both the Federal Reserve Board and Barclays.

Source: Federal Reserve Board, Barclays Capital

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Top panel  
(24)

**Title:** Fed Funds Futures Curves  
**Horizon:** June 24, 2008 - September 15, 2008  
**Description:** The fed funds futures curve has shifted down and flattened since the August FOMC meeting.

Source: Bloomberg

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Middle panel  
(25)

**Title:** Eurodollar Futures Curves  
**Series:** Eurodollar futures curves as of 6/24/2008, 8/4/2008, and 9/15/2008  
**Horizon:** June 24, 2008 - September 15, 2008  
**Description:** The Eurodollar futures curve has shifted lower since the August FOMC meeting.

Source: Bloomberg

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Top panel  
(26)

**Title:** Probabilities for Policy Rate Outcomes: September FOMC meeting  
**Series:** Probabilities for a 1.75, 2.00, 2.25, 2.50, or 2.75 percent target rate at the September FOMC meeting  
**Horizon:** May 1, 2008 - September 11, 2008  
**Description:** At the time of the September 16th FOMC meeting, options on fed funds futures suggested a 2.00 percent target rate following the September 16th FOMC meeting was the most likely outcome.

Source: Federal Reserve Bank of Cleveland

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Middle panel  
(27)

**Title:** Probabilities for Policy Rate Outcomes: October FOMC meeting  
**Series:** Probabilities for a 1.75, 2.00, 2.25, 2.50, or 2.75 percent target rate at the October FOMC meeting  
**Horizon:** August 1, 2008 - September 11, 2008
**Description:** At the time of the September 16th FOMC meeting, options on fed funds futures suggested a 2.00 percent target rate following the October 28-29 FOMC meeting was the most likely outcome.

Source: Federal Reserve Bank of Cleveland

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**Top panel**

(28)

**Title:** Distribution of Expected Policy Target Rate Among Primary Dealers Prior to September 16 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 9/8/2008

**Horizon:** 2008:Q3 - 2009:Q4

**Description:** On average, primary dealer economists' policy rate expectations are similar to what is currently priced into Eurodollar futures.

Source: Dealer Policy Survey

**Middle panel**

(29)

**Title:** Distribution of Expected Policy Target Rate Among Primary Dealers Prior to August 5 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 7/28/2008

**Horizon:** 2008:Q3 - 2009:Q4

**Description:** On average, primary dealer economists expect lower policy rates than what is currently priced into Eurodollar futures.

Source: Dealer Policy Survey

**APPENDIX: Reference Exhibits**

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**Top panel**

(30)

**Title:** Weekly Changes in Aggregate FIMA Holdings of Agency MBS

**Series:** Weekly Changes in Aggregate FIMA Holdings of Agency MBS for Ginnie Mae, Freddie Mac, and Fannie Mae

**Horizon:** September 5, 2007 - September 10, 2008

**Description:** Aggregate FIMA holdings of agency MBS for Freddie Mac and Fannie Mae have not grown since July 2008.

Source: Federal Reserve Bank of New York

**Middle panel**

(31)
Top panel
(32)

Title: Forward Three-Month Libor-OIS Spreads
Series: Forward spreads between three-month Libor rate and three-month overnight index swap rates in the U.S. for the 1-2 Year Horizon and the 2-3 Year Horizon
Horizon: July 1, 2007 - September 12, 2008
Description: The spreads between the three-month Libor rate and the three-month overnight index swap rate over 1-2 year and 2-3 year horizons continue to rise.

Source: Reuters

Middle panel
(33)

Title: U.S. Dollar Net Long Positioning by Non-Commercial Accounts Increases*
Series: U.S. Dollar Net Long Positioning by Non-Commercial Accounts
Horizon: January 1, 2007 - September 1, 2008
Description: U.S. dollar net long positioning by non-commercial accounts increases.

* Calculated as ($ amount of non-commercial long - short positioning) / ($ amount of total open interest).
USD compared against the following currencies: EUR, JPY, GBP, CHF, CAD, MXN, AUD

Source: Bloomberg, Chicago Mercantile Exchange

Appendix 2: Materials used by Mr. Madigan

Material for FOMC Briefing on Monetary Policy Alternatives and Trial Run Survey Results
Brian Madigan
September 16, 2008

Class I FOMC - Restricted Controlled (FR)

Exhibit 1

Table 1: Alternative Language for the September 2008 FOMC Announcement
September 15, 2008
[Note: In Appendix 2, Table 1, strong emphasis (bold) has been added to indicate underlined red text in the original document. Emphasis (italic) indicates underlined blue text in the original document.]
Rationale

2. Economic activity expanded in the second quarter, partly reflecting growth in consumer spending and exports. However, labor markets have softened further and financial markets remain under considerable stress. Tight credit conditions, the ongoing housing contraction, and elevated energy prices are likely to weigh on economic growth over the next few quarters. Over time, the substantial easing of monetary policy, combined with ongoing measures to foster market liquidity, should help to promote moderate economic growth.

3. Inflation has been high, spurred by the earlier increases in the prices of energy and some other commodities, and some indicators of inflation expectations have been elevated. The Committee expects inflation to moderate later this year and next year, but the inflation outlook remains highly uncertain.

Assessment of Risk

4. Although downside risks to growth remain, the upside risks to inflation are also of significant concern to the Committee. The Committee will continue to monitor economic and financial developments and will act as needed to promote sustainable economic growth and price stability.

The Committee took this action to provide additional assurance that inflation will abate as desired. The Committee will continue to monitor economic and financial developments and will act as needed to promote sustainable economic growth and price stability.

Exhibit 2
Trial Run of Longer-Term Projections

Top panel
Survey Options
1. I prefer that the trial run encompass both Alternative 1 and Alternative 2.
2. I prefer that the trial run encompass only Alternative 1 (projections of long-run values, say 5 to 6 years ahead, absent further shocks).
3. I prefer that the trial run encompass only Alternative 2 (steady-state values).
4. I agree that a trial run should be conducted but have no preference regarding the two alternatives.
5. I propose that the following alternative approach to longer-term projections be considered (please explain)
6. Other (please explain).

### Bottom panel

**Survey Responses**

<table>
<thead>
<tr>
<th>Option</th>
<th>Number of participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1</td>
<td>7</td>
</tr>
<tr>
<td>#2</td>
<td>5</td>
</tr>
<tr>
<td>#3</td>
<td>2</td>
</tr>
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<td>#4</td>
<td>1</td>
</tr>
<tr>
<td>#5</td>
<td>1</td>
</tr>
<tr>
<td>#6</td>
<td>1</td>
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</table>

### Appendix 3: Materials used by Chairman Bernanke

**FEDERAL RESERVE press release**

[Seal of the Board of Governors of the Federal Reserve System]

For immediate release

September 16, 2008

The Federal Open Market Committee decided today to keep its target for the federal funds rate at 2 percent.

Strains in financial markets have increased significantly and labor markets have weakened further. Economic growth appears to have slowed recently, partly reflecting a softening of household spending. Tight credit conditions, the ongoing housing contraction, and some slowing in export growth are likely to weigh on economic growth over the next few quarters. Over time, the substantial easing of monetary policy, combined with ongoing measures to foster market liquidity, should help to promote moderate economic growth.

Inflation has been high, spurred by the earlier increases in the prices of energy and some other commodities. The Committee expects inflation to moderate later this year and next year, but the inflation outlook remains highly uncertain.

The downside risks to growth and the upside risks to inflation are both of significant concern to the Committee. The Committee will monitor economic and financial market developments closely and will act as needed to promote sustainable economic growth and price stability.
Voting for the FOMC monetary policy action were: