Accessible Version

Meeting of the Federal Open Market Committee
September 22-23, 2009 Presentation Materials

Presentation Materials (PDF)

Pages 187 to 212 of the Transcript

Appendix 1: Materials used by Mr. Sack

Material for **FOMC Presentation:** ***Financial Market Developments and Desk Operations***
Brian Sack
September 23, 2009

Class II FOMC - Restricted FR

Exhibit 1

Top-left panel
(1)

Title: US Equity Prices (S&P 500)
Series: Standard & Poor's 500 Index
Horizon: August 1, 2008 - September 21, 2009
Description: S&P 500 rises.

August 12: FOMC

Source: Bloomberg

Top-right panel
(2)

Title: Corporate Debt Spreads
Series: High Yield and Investment Grade corporate debt spreads
Horizon: August 1, 2008 - September 18, 2009
Description: Corporate debt spreads narrow.

Source: Bank of America

Middle-left panel
(3)

Title: GDP Forecasts
Series: Primary dealer Gross Domestic Product forecasts before March 2009 and September 2009 FOMC meetings
Description: Dealer survey shows upward revision of GDP forecasts in September.

Source: Dealer Policy Survey

Middle-right panel (4)

Title: Equity Implied Volatility (VIX)
Series: VIX implied volatility index
Horizon: August 1, 2008 - September 18, 2009
Description: VIX index remains moderately steady.

Source: Bloomberg

Bottom-left panel (5)

Title: Equity Premium
Series: Board of Governors equity premium
Horizon: January 1990 - September 2009
Description: Equity premium remains relatively high by historical standards.

Source: Federal Reserve Board of Governors

Bottom-right panel (6)

Title: Expected Default Rate on High-Yield Corporate Bonds
Series: Pessimistic, baseline, and optimistic scenarios for high-yield corporate bond default rates at the 1-year horizon
Horizon: September 30, 2007 - September 18, 2009
Description: Expected corporate defaults have fallen substantially since the beginning of 2009.

Source: Moody's

Exhibit 2

Top-left panel (7)

Title: Commercial Bank Balance Sheets
Series: Commercial bank loans and leases, deposits, and Treasury and agency holdings
Horizon: August 1, 2007 - September 9, 2009
Description: Private loans have declined while deposits and Treasury and agency securities have increased.

Source: Federal Reserve Board of Governors

Top-right panel (8)

Title: High-Yield Corporate Bond Issuance
Series: High-yield corporate bond issuance
Horizon: January 2008 - August 2009
Description: High-yield corporate bond issuance is high in the second and third quarters of 2009.

Source: JP Morgan Chase

Middle-left panel (9)

Title: ABS Issuance
Series: Asset-Backed Securities TALF-eligible issuance and non-TALF issuance
Horizon: Q1 2007 - Q3 2009
Description: ABS issuance increases with substantial TALF support.

Source: JP Morgan Chase

Middle-right panel
(10)

Title: AAA-Rated Consumer ABS Spreads
Series: 3-Year Prime Auto and 3-Year Credit Card spreads
Horizon: August 1, 2008 - September 18, 2009
Description: ABS spreads narrow in the intermeeting period.

Source: JP Morgan Chase

Bottom-left panel
(11)

Title: CMBS Spreads
Series: CMBS spreads for Junior, Mezzanine, and Super Senior tranches
Horizon: August 1, 2008 - September 18, 2009
Description: CMBS spreads narrow.

Source: JP Morgan Chase

Bottom-right panel
(12)

Title: CMBS Issuance
Series: CMBS issuance
Horizon: 2002 - 2009
Description: CMBS issuance remains at zero for 2009.

Source: Commercial Mortgage Alert

Exhibit 3

Top-left panel
(13)

Title: Treasury Yields
Series: Treasury yields for the 2-year, 5-year, 10-year, 30-year securities
Horizon: August 1, 2008 - September 21, 2009
Description: Treasury yields decline in the intermeeting period.

Source: Bloomberg

Top-right panel
(14)

Title: Breakeven Inflation Rates
Series: 5-year spot and 5-year 5-year forward breakeven inflation rates
Horizon: August 1, 2007 - September 18, 2009
Description: Breakeven inflation rates decline in the intermeeting period.

Source: Barclays

Middle-left panel
(15)

Title: Implied Volatility on Yields
Series: Treasury implied volatility (MOVE) and Swaption implied volatility (SMOVE)
Horizon: August 1, 2008 - September 18, 2009
Description: Implied volatility for Treasury and swap rates continues to decline from elevated levels.

Source: Bloomberg

Middle-right panel
(16)

Title: Implied Federal Funds Rate
Series: Implied Federal Funds rates based on Fed Funds and Eurodollar futures contracts
Horizon: 8/12/09, 9/14/09
Description: Futures prices in September suggest a later start to policy tightening relative to the August meeting.

Source: Federal Reserve Board of Governors

Bottom-left panel
(17)

Title: Expected Timing of First Rate Hike
Series: Percent of primary dealers predicting first rate hike in a certain quarter
Horizon: Q4 2009 - Q2 2012
Description: Most dealers predict first rate hike will occur during or after Q3 2010.

Source: Dealer Policy Survey

Bottom-right panel
(18)

Title: Monthly Purchases of Treasury Securities
Series: Monthly Federal Reserve purchases of Treasury securities
Horizon: March 2009 - October 2009
Description: Purchases of Treasury securities to total $300 billion and conclude in October 2009.

Source: Federal Reserve Bank of New York

Exhibit 4

Top-left panel
(19)

Title: MBS Option-Adjusted Spread
Series: Fannie Mae MBS current coupon OAS
Horizon: August 1, 2000 - September 18, 2009
Description: MBS OAS remains tight.

Source: Barclays Capital, Bloomberg

Top-right panel
(20)

Title: Impact of MBS Yield from Purchase Program
Series: Number of primary dealers selecting a range of impact in basis points from -125 to 0 basis points
Description: Dealers believe the MBS purchase program has pushed down rates.

Source: Dealer Policy Survey

Middle-left panel
(21)

Title: Weekly Pace of Agency MBS Purchases
Series: Actual monthly Federal Reserve purchases of Agency MBS, Q1 2010 Taper weekly pace of Agency MBS purchases, Q2 2010 Taper weekly pace of Agency MBS purchases, and Q4 2009 End weekly pace of Agency MBS purchases
Horizon: January 7, 2009 - June 30, 2010
Description: Agency MBS purchase tapering options.

Source: Federal Reserve Bank of New York

Middle-right panel
(22)

Title: Weekly Pace of Agency Debt Purchases
Series: Actual monthly Federal Reserve purchases of Agency debt, Q1 2010 Taper weekly pace of Agency debt purchases totaling $200 billion, Q1 2010 Taper weekly pace of Agency debt purchases totaling $175 billion, and Q4 2009 End weekly pace of Agency debt purchases totaling $200 billion
Horizon: January 7, 2009 - March 31, 2010
Description: Agency debt purchase tapering options.

Source: Federal Reserve Bank of New York

Bottom-left panel
(23)

Title: Expected Cumulative Agency MBS Purchases
Series: Primary dealer expectations for cumulative agency MBS purchases
Horizon: Q3 2009 - Q4 2010
Description: Dealers expect Federal Reserve agency MBS purchases to total $1.25 trillion in Q1 2010.

Source: Dealer Policy Survey

Bottom-right panel
(24)

Title: Expected Cumulative Agency Debt Purchases
Series: Primary dealer expectations for cumulative agency debt purchases
Horizon: Q3 2009 - Q4 2010
Description: Dealers expect Federal Reserve agency debt purchases to total $200 billion in Q1 2010.

Source: Dealer Policy Survey

Exhibit 5

Top-left panel
(25)

Title: Balance Sheet Assets by Category
Series: Federal Reserve balance sheet assets categorized by All Other, Lending to Systemically Important Institutions, Short-Term Liquidity Facilities, Large-Scale Asset Purchases, and Legacy Treasuries
Horizon: August 1, 2008 - September 18, 2009
Description: Balance sheet composition shifts as securities purchases outpace decline in liquidity facilities.

Source: Federal Reserve Bank of New York

Top-right panel
(26)

Title: US Libor-OIS Spreads
Series: 1-Month and 3-Month US Dollar Libor spreads to OIS
Horizon: August 1, 2007 - September 18, 2009
Description: US Libor to OIS spreads narrow to pre-crisis levels.

Source: Bloomberg

Middle-left panel
(27)

Title: Commercial Paper Spreads
Series: 1-month AA Nonfinancial commercial paper spread to OIS, 1-month A2/P2 spread to OIS
Horizon: August 1, 2007 - September 18, 2009
Description: Commercial paper spreads narrow.

Source: Federal Reserve Board of Governors

Middle-right panel
(28)

Title: Overnight Repo Collateral Haircuts
Series: Overnight repo collateral haircuts for subprime MBS, high-yield corporate debt, high-grade corporate debt, and Treasury
Horizon: January 1, 2008 - September 16, 2009
Description: Some collateral haircuts remain high.

Source: Dealer Haircut Survey

Bottom-left panel
(29)

Title: Federal Reserve Short-Term Liquidity Facilities
Series: Outstanding amounts for Federal Reserve Term Securities Lending Facility, Primary Credit Facility, Primary Dealer Credit Facility, Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility, Commercial Paper Funding Facility, Central Bank Liquidity Swaps, and Term Auction Facility
Horizon: August 1, 2008 - September 18, 2009
Description: Usage of Federal Reserve liquidity facilities decreases.

Source: Federal Reserve Bank of New York

Bottom-right panel
(30) Remaining Usage of Liquidity Facilities

	FX Liquidity Swaps[1]	CPFF	TAF
Volume of Funding Outstanding ($ bil)	61	39	196
Number of Current Borrowers/Issuers	13	23	196
Number of Continuous Borrowers/Issuers[2]	6	23	14

[1] Number of FX liquidity swap borrowers includes ECB participants only. Return to table

[2] Continuous borrowers are firms using facilities since June 25, 2009. Return to table

Source: Federal Reserve Bank of New York

Appendix 2: Materials used by Mr. English

Exhibit 1
Effects of Elevated Reserve Balances

Top-left panel
*Aggregate reserve balances of DIs**

Data plotted as a curve. The period covered is from January 2008 to December 2016, and the data are in billions of dollars. The panel presents the path for the aggregate reserve balances of DIs; the curve switches from a solid line to a dashed line in September 2009 to make clear that the data have switched from following an actual path to a baseline projection path. Reserves begin at around 20 billion in January 2008 and stay level through August 2008. Thereafter, reserves rise quickly. Reserves increase to about 200 billion in September 2008, to about 500 billion in October 2008, to about 700 billion in November 2008, and eventually reach about 850 billion in December 2008. Reserves then fluctuate between about 700 and 900 billion until September 2009. In October 2009, the first month of the projection region, reserves rise to almost 1.1 trillion; reserves then fluctuate modestly between 1 and 1.2 trillion through 2010 and half of 2011 before beginning a gradual decline in June 2011. Reserves decline to about 900 billion by December 2011, to about 700 billion by July 2012, to about 600 billion by December 2012, to about 500 billion by April 2013, to about 300 billion by March 2014, to about 100 billion by May 2015, and eventual reach about 25 billion in January 2016. Reserves remain level through December 2016.

* Consistent with the baseline projection of the Federal Reserve's balance sheet compiled for the September 2009 Bluebook. Return to text

Top-right panel
Two possible concerns

- High levels of reserve balances could put pressure on leverage ratios, leading banks to reduce bank credit
- Banks' efforts to reduce their balances could put downward pressure on interest rates and lead to an easing of credit standards and terms

Middle-left panel
Leverage ratios

- The subject of a staff memo and briefing at the June meeting.
- Aggregate bank capital appears to be sufficient given the projected increase in reserve balances
- Anticipated increase in reserve balances is now smaller
- But we don't know how large a buffer banking organizations want over regulatory norms

Middle-right panel
Consultations

- To examine the second concern, staff consulted with four banking organizations:
    - Two large commercial banks
    - One key processing bank
    - One large U.S. branch of a foreign banking organization
- The institutions account for 35 percent of reserve balances and 17 percent of bank credit

Bottom-left panel
Reasons for elevated balances

- Large inflows of funds last fall
- Relatively unattractive risk-adjusted returns on alternative assets
- Weak loan demand
- Large commercial banks chose to hold high balances as a liquidity buffer

Bottom-right panel
Response to further inflows of balances

- The large commercial banks indicated balances could rise before they would take action
- The other two firms said they would offset any addition
- Possible actions:
    - Run off some managed liabilities
    - Purchase safe, short- and intermediate-term securities
    - No change in lending

Exhibit 2
Policy Implications

Top-left panel
Plans for reducing balances

- Reductions were expected to leave balances above pre-crisis levels
    - Interest on reserves
    - Increased concern about liquidity
- The organizations' anticipated timing of reductions in reserve balances differed widely

Top-right panel
Intended methods for reducing balances

- Pay down borrowings in wholesale markets
- Allow some large time deposits to run off
- Increase lending in interbank and other wholesale markets
- Increase purchases of safe, short- and intermediate-term securities
- Generally no changes in lending terms and standards

Middle-left panel
Implications for financial markets

- Tension between projected increases in reserves and potentially decreasing demand
- Asset returns will have to adjust to leave banks willing to hold the existing stock of reserves
    - Rates on shorter-term funding instruments likely to fall
    - Yield on securities that are close substitutes for reserves should decline
    - No change in lending standards

Middle-right panel
Implications for the economy

- These are the intended consequences of quantitative easing
- The size of the resulting effects on rates and on the economy is quite uncertain
- In the staff forecast, these effects are assumed to be quite small
- Constructed an alternative simulation assuming the effects are large

Bottom-left panel
Simulation results

	2010	**2011**
	-percentage points-	
GDP growth (Q4/Q4)	0.3	0.4
Unemployment (Q4)	-0.1	-0.3
PCE Inflation (Q4/Q4)	0.1	0.1

Note: Changes relative to baseline forecast.

Bottom-right panel
What if this analysis is wrong?

- Could provide more stimulus
    - Some members may see additional monetary stimulus as potentially beneficial
- Could contribute to higher expected and actual inflation
- The Committee might decide to tighten policy sooner or more rapidly than would otherwise have been the case

Appendix 3: Materials used by Mr. Madigan

Material for Briefing on **Proposed TAF and TSLF Schedules**
Brian Madigan
September 22, 2009

Class I FOMC - Restricted Controlled (FR)

DRAFT: PRESS RELEASE - September 24, 2009

The Federal Reserve on Thursday announced schedules for operations under the Term Auction Facility (TAF) and the Term Securities Lending Facility (TSLF) through January 2010 and other information related to those facilities.

These schedules are consistent with the intention indicated in the Federal Reserve's June 25 press release to gradually scale back these facilities in response to continued improvements in financial market conditions.

As noted in previous announcements, the Federal Reserve remains prepared to expand its liquidity provision should financial market conditions deteriorate materially. If significant market strains appear likely to develop over year-end, the announced schedules may be modified to accommodate expanded operations.

Detailed schedules are attached.

Term Auction Facility

Under the TAF, to date the Federal Reserve has reduced offered amounts from a peak of $150 billion per auction to $75 billion per auction as conditions in wholesale markets for unsecured credit have continued to improve. Under the schedules announced Thursday, the Federal Reserve will continue to offer $75 billion per auction of 28-day funds through January to help ensure that an adequate volume of funding is available in the period leading up to year-end and over year-end. Reductions in the sizes of those 28-day operations are expected to resume early next year. The amounts offered under the existing cycle of auctions of 84-day funds will be reduced to $50 billion effective in October and to $25 billion in November and December, and the maturities of those operations will be reduced. The purpose of shortening the maturities is to align the maturity dates of those operations with the maturities in the cycle for 28-day funds. With the completion of that transition, the auction schedule will be converted by early next year to a single cycle of 28-day funds offered every 28 days.

Over the next several months, the Federal Reserve will assess whether to maintain a TAF on a permanent basis. A permanent TAF could take a variety of forms. For example, under one approach, a relatively small amount of funds would be made available in ordinary circumstances, but the facility could be expanded rapidly in conditions of extraordinary market stress. Under an alternative approach, the TAF would be deactivated when market conditions have improved sufficiently but would remain available for use in conditions of increased market stress. The Federal Reserve will soon publish a request for public comment on a range of possible structures for a permanent TAF.

Term Securities Lending Facility

As announced on June 25, the Federal Reserve has discontinued Schedule 1 TSLF operations and TSLF Options Program operations. It has also reduced the frequency and size of its Schedule 2 TSLF operations. Consistent with recent further improvements in conditions in secured financing markets, the amounts offered in TSLF auctions will be scaled back further from their current size of $75 billion. As indicated in the attached schedule, TSLF offerings will be reduced to $50 billion in the October auction and to $25 billion in the November, December, and January auctions.

Possible Year-end Operations

The Federal Reserve is prepared to temporarily increase the sizes of TAF and TSLF operations or conduct additional off-cycle operations with terms that span year-end in order to address transitory market strains.

DRAFT
TAF Auction Schedule

Auction Date	Term (Days)	Auction Amount	Settlement Date	Maturity Date
10/5/2009	70	$50 billion	10/8/2009	12/17/2009

Auction Date	Term (Days)	Auction Amount	Settlement Date	Maturity Date
10/19/2009	28	$75 billion	10/22/2009	11/19/2009
11/2/2009	70	$25 billion	11/5/2009	1/14/2010
11/16/2009	28	$75 billion	11/19/2009	12/17/2009
11/30/2009	42	$25 billion	12/3/2009	1/14/2010
12/14/2009	28	$75 billion	12/17/2009	1/14/2010
1/11/2010	28	$75 billion	1/14/2010	2/11/2010

TSLF Auction Schedule (All Schedule 2)

Auction Date	Term (Days)	Auction Amount	Settlement Date	Maturity Date
10/8/2009	28	$50 billion	10/9/2009	11/6/2009
11/5/2009	28	$25 billion	11/6/2009	12/4/2009
12/3/2009	35	$25 billion	12/4/2009	1/8/2010
1/7/2010	28	$25 billion	1/8/2010	2/5/2010

Appendix 4: Materials used by Mr. Madigan

Material for Briefing on **Monetary Policy Alternatives**
Brian Madigan
September 23, 2009

Class I FOMC - Restricted Controlled (FR)

August FOMC Statement

Information received since the Federal Open Market Committee met in June suggests that economic activity is leveling out. Conditions in financial markets have improved further in recent weeks. Household spending has continued to show signs of stabilizing but remains constrained by ongoing job losses, sluggish income growth, lower housing wealth, and tight credit. Businesses are still cutting back on fixed investment and staffing but are making progress in bringing inventory stocks into better alignment with sales. Although economic activity is likely to remain weak for a time, the Committee continues to anticipate that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will contribute to a gradual resumption of sustainable economic growth in a context of price stability.

The prices of energy and other commodities have risen of late. However, substantial resource slack is likely to dampen cost pressures, and the Committee expects that inflation will remain subdued for some time.

In these circumstances, the Federal Reserve will employ all available tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period. As previously announced, to provide support to mortgage lending and housing markets and to improve overall conditions in private credit markets, the Federal Reserve will purchase a total of up to $1.25 trillion of agency mortgage-backed securities and up to $200 billion of agency debt by the end of the year. In addition, the Federal Reserve is in the process of buying $300 billion of Treasury securities. To promote a smooth transition in markets as these purchases of Treasury securities are completed, the Committee has decided to gradually slow the pace of these transactions and anticipates that the full amount will be purchased by the end of October. The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets. The Federal Reserve is monitoring the size and composition of its balance sheet and will make adjustments to its credit and liquidity programs as warranted.

[Note: In the September FOMC Statement Alternatives, strong emphasis (bold) indicates bold red underlined text in the original document, and emphasis (italic) indicates bold blue underlined text in the original document.]

September FOMC Statement - Alternative A

Information received since the Federal Open Market Committee met in **August indicates** that economic activity is leveling out**, and** conditions in financial markets have improved **somewhat** further. Businesses **have made** progress in bringing inventory stocks into better alignment with sales. **However, household spending is sluggish, job losses are ongoing, and credit remains tight. Although the Committee continues to anticipate a resumption of economic growth** in a context of price stability, **absent further policy action the economic recovery could be relatively weak, with slack in resource utilization diminishing quite slowly**.

Inflation has fallen considerably over the past year. With substantial resource slack likely **to continue** to dampen cost pressures, the Committee expects that inflation will remain subdued for some time.

To promote a sustained economic recovery and higher resource utilization, the Committee has decided to provide additional monetary stimulus by increasing its purchases of agency mortgage-backed securities to a total of $1.5 trillion, up from the previously announced amount of as much as $1.25 trillion, and to extend these purchases through the second quarter of 2010. As previously announced, the Federal Reserve is in the process of buying $300 billion of Treasury securities by the end of October and up to $200 billion of agency debt by the end of the year. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that **low levels of resource utilization and subdued inflation** are likely to warrant exceptionally low levels of the federal funds rate for an extended period. The Committee will continue to evaluate the timing and overall amounts of its purchases of securities, in light of the evolving economic outlook and conditions in financial markets. The Federal Reserve is monitoring the size and composition of its balance sheet and will make adjustments to its credit and liquidity programs as warranted.

September FOMC Statement - Alternative B

Information received since the Federal Open Market Committee met in **August** suggests that economic activity **has picked up following its severe downturn**. Conditions in financial markets have improved further**, and activity in the housing sector has increased**. Household spending **seems to be** stabilizing but remains constrained by ongoing job losses, sluggish income growth, lower housing wealth, and tight credit. Businesses are still cutting back on fixed investment and staffing**, though at a slower pace; they continue to make** progress in bringing inventory stocks into better alignment with sales. Although economic activity is likely to remain weak for a time, the Committee anticipates that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will **support** a**strengthening** of economic growth **and a gradual return to higher levels of resource utilization** in a context of price stability.

With substantial resource slack likely **to continue** to dampen cost pressures and *with longer-term inflation expectations stable*, the Committee expects that inflation will remain subdued for some time.

In these circumstances, the Federal Reserve will **continue to** employ **a** *[wide]***range of** tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions 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 will purchase a total of *[*up to*]* $1.25 trillion of agency mortgage-backed securities and up to $200 billion of agency debt. **The Committee will gradually slow the pace of** *these* **purchases in order to promote a smooth transition in markets and anticipates that they will be completed [by the end of the first quarter | in the second quarter] of 2010. As previously announced,**the Federal Reserve**'s purchases** of $300 billion of Treasury securities **will be completed** by the end of October **2009**. The Committee will continue to evaluate the timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets. The Federal Reserve is monitoring the size and composition of its balance sheet and will make adjustments to its credit and liquidity programs as warranted.

September FOMC Statement - Alternative C

Information received since the Federal Open Market Committee met in **August** suggests that **a recovery in** economic activity **has begun**. Conditions in financial markets have improved further. **Consumer** spending**seems**

to be stabilizing **but has yet to show sustained strength**. **Activity in the housing sector has increased.** Businesses are still cutting back on fixed investment and staffing**, though at a slower pace; they continue to make** progress in bringing inventory stocks into better alignment with sales. The Committee anticipates that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will **support**a **strengthening** of economic growth in a context of price stability.

With inflation expectations apparently well anchored, the Committee expects that inflation will remain subdued for some time.

In view of improving economic and financial market conditions, the Committee now plans to purchase a total of about $1 trillion of agency mortgage-backed securities and about $150 billion of agency debt, somewhat less than the previously announced maximum amounts. To promote a smooth transition in markets, the Committee will gradually slow the pace of its purchases until their expected completion by the end of the year. **As previously announced,** the Federal Reserve**'s purchases** of $300 billion of Treasury securities will be **completed** by the end of October. The Federal Reserve is monitoring the size and composition of its balance sheet and will make adjustments to its credit and liquidity programs as warranted. **So long as inflation remains well contained,** the Committee will maintain the target range for the federal funds rate at **its exceptionally low level** of 0 to ¼ percent **until it has greater assurance that the economic recovery will be sustained.** The Committee will continue to evaluate timing and overall amounts of its purchases of securities in light of the evolving economic outlook and conditions in financial markets.

Table 1: Overview of Alternative Language for the September 22-23, 2009 FOMC Announcement

	August FOMC	September Alternatives		
		A	B	C
Forward Guidance on Funds Rate Path				
	"for an extended period"	"for an extended period"	"for an extended period"	"So long as inflation remains well contained … until it has greater assurance that the economic recovery will be sustained"
Treasury Securities Purchases				
Total Amount	$300 billion	$300 billion	$300 billion	$300 billion
Pace	pace will "gradually slow"	-----	-----	-----
Completion	by the end of October	by the end of October	by the end of October	by the end of October
Agency MBS Purchases				
Total Amount	"up to" $1.25 trillion	"a total of" $1.5 trillion	"up to" $1.25 trillion **OR** $1.25 trillion	"a total of about" $1 trillion
Pace	-----	-----	pace will "gradually slow"	pace will "gradually slow"
Completion	by the end of the year	through the second quarter of 2010	by the end of the first quarter of 2010 **OR** in the second quarter of 2010	by the end of the year
Agency Debt Purchases				
Total Amount	"up to" $200 billion	"up to" $200 billion	"up to" $200 billion	"a total of about" $150 billion
Pace	-----	-----	pace will "gradually slow"	pace will "gradually slow"

	August FOMC	September Alternatives		
		A	B	C
Completion	by the end of the year	by the end of the year	by the end of the first quarter of 2010 **OR** in the second quarter of 2010	by the end of the year
Evaluation of LSAP Timing and Overall Amounts				
	adjustments to timing and amounts of all LSAPs will continue to be evaluated	adjustments to timing and amounts of all LSAPs will continue to be evaluated	adjustments to timing and amounts of all LSAPs will continue to be evaluated	adjustments to timing and amounts of all LSAPs will continue to be evaluated

DIRECTIVE - AUGUST 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, agency MBS, and longer-term Treasury securities 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 purchase up to $200 billion in housing-related agency debt and up to $1.25 trillion of agency MBS by the end of the year. The Desk is expected to purchase about $300 billion of longer-term Treasury securities by the end of October, gradually slowing the pace of these purchases until they are completed. 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 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.

DIRECTIVE - SEPTEMBER 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, agency MBS, and longer-term Treasury securities 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 purchase about $300 billion of longer-term Treasury securities by the end of October, gradually slowing the pace of these purchases until they are completed. The Desk is expected to purchase up to $200 billion in housing-related agency debt by the end of the year and about $1.5 trillion of agency MBS by the end of the second quarter of 2010. 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 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.

DIRECTIVE - SEPTEMBER FOMC MEETING -- ALTERNATIVE B

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, agency MBS, and longer-term Treasury securities 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 complete purchases of about $300 billion of longer-term Treasury securities by the end of October and purchases of up to $200 billion in housing-related agency debt and [up to | about] $1.25 trillion of agency MBS [by the end of the first quarter of 2010 | in the second quarter of 2010]. 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 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.

Directive - September FOMC Meeting -- Alternative C

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