Accessible Version

Meeting of the Federal Open Market Committee
March 16, 2010 Presentation Materials

Presentation Materials (PDF)

Pages 125 to 146 of the Transcript

Appendix 1: Materials used by Mr. Sack

Material for
FOMC Presentation: *Financial Market Developments and Desk Operations*

Brian Sack
March 16, 2010

Class II FOMC - Restricted FR

Exhibit 1

Top-left panel
(1)

Title: Implied Federal Funds Rate
Series: Future federal funds rates implied by Eurodollar and federal funds futures contracts
Horizon: 11/3/09, 12/15/09, 1/26/10, 3/12/10
Description: The implied path of the federal funds rate has declined over each of the past three intermeeting periods.

Source: Federal Reserve Bank of New York

Top-right panel
(2)

Title: Treasury Yields
Series: Yields for the 2-year, 5-year, and 10-year Treasury note
Horizon: August 1, 2008 - March 12, 2010
Description: Treasury yields edged higher over the intermeeting period.

A vertical line marks the FOMC meeting of January 26-27, 2010.

Source: Bloomberg

Middle-left panel
(3)

Title: Breakeven Inflation Rates
Series: 5-year spot and 5-year 5-year forward breakeven inflation rates from the Board of Governors
Horizon: August 1, 2007 - March 12, 2010
Description: Breakeven inflation rates have declined from their recent highs.

Source: Federal Reserve Board of Governors

Middle-right panel
(4)

Title: European Debt Spreads to German Debt*
Series: 10-year Greek, Portuguese and Spanish debt yields less 10-year German debt yields
Horizon: January 1, 2009 - March 12, 2010
Description: The spread between debt in peripheral European countries and German debt widened over the intermeeting period.

* 10-yr Maturity Return to text

Source: Bloomberg

Bottom-left panel
(5)

Title: CDS in Federal and State Debt
Series: 5-year CDS for New York, California and the United States
Horizon: January 1, 2009 - March 12, 2010
Description: CDS spreads on the United States have not widened much, despite increased attention to sovereign default risk.

Source: Bloomberg

Bottom-right panel
(6)

Title: US Dollar
Series: The sterling/dollar and euro/dollar exchange rates
Horizon: August 1, 2008 - March 12, 2010
Description: The dollar has strengthened over the intermeeting period.

Source: Federal Reserve Board of Governors, Bloomberg

Exhibit 2

Top-left panel
(7)

Title: Federal Reserve Short-Term Liquidity Facilities
Series: Size of short-term liquidity facilities
Horizon: August 1, 2008 - March 12, 2010
Description: The volume of activity in the short- term facilities continues to decline following the closure of a number of facilities on February 1, 2010.

PDCF, TSLF, AMLF, FX Swaps, PCF, CPFF, and TAF

Source: Federal Reserve Bank of New York

Top-right panel
(8)

Title: LIBOR-OIS Spreads
Series: Spread between Libor and OIS at the 1- and 3-month tenors

Horizon: August 1, 2008 - March 12, 2010
Description: Libor-OIS spreads have remained low as the short-term liquidity facilities have wound down.

Source: Bloomberg

Middle-left panel
(9)

Title: TALF Outstanding Balances
Series: Loans extended by TALF, loans currently outstanding and cumulative prepayment.
Horizon: March 25, 2009 - March 10, 2010
Description: The rate of borrowing from TALF has expanded steadily as has the pace of prepayments.

Source: Federal Reserve Bank of New York

Middle-right panel
(10)

Title: ABS Spreads
Series: AAA Credit Cards (3-year spread to Libor), AAA Prime Auto (3-year spread to swap), AAA FFELP Student Loans (3-year spread to Libor)
Horizon: August 1, 2008 - March 12, 2010
Description: ABS spreads remain tight ahead of the termination of the TALF program.

Source: JP Morgan Chase

Bottom-left panel
(11)

Title: S&P 500
Series: Standard & Poor's 500 Index
Horizon: August 1, 2008 - March 12, 2010
Description: Major US equity indexes advanced over the intermeeting period.

Source: Bloomberg

Bottom-right panel
(12)

Title: Corporate Bond Spreads
Series: High yield and investment grade corporate bond spreads
Horizon: August 1, 2008 - March 12, 2010
Description: Corporate bond spreads narrowed modestly over the intermeeting period.

Source: Bank of America

Exhibit 3

Top-left panel
(13)

Title: Weekly Pace of MBS Purchases
Series: Monthly average of agency MBS purchases and projected path of weekly agency MBS purchases as of December FOMC

Horizon: January 2009 - March 2010
Description: Agency MBS purchases continue to taper and are on track to meet the $1.25 trillion target.

Source: Federal Reserve Bank of New York

Top-right panel (14)

Title: Weekly Pace of Agency Debt Purchases
Series: Monthly average of agency debt purchases and projected path of weekly agency debt purchases as of December FOMC
Horizon: January 2009 - March 2010
Description: Agency debt purchases have fallen behind their intended schedule.

Source: Federal Reserve Bank of New York

Middle-left panel (15)

Title: MBS Spreads*
Series: Fannie Mae fixed-rate current coupon option-adjusted spreads to Treasury and to swap
Horizon: August 1, 2000 - March 12, 2010
Description: MBS spreads remain tight, despite the slower pace of purchases.

* Fannie Mae fixed-rate current coupon spreads Return to text

Source: Barclays Capital

Middle-right panel (16)

Title: Agency Debt Spread*
Series: Fannie Mae 5-year benchmark spread to Treasury
Horizon: August 1, 2000 - March 12, 2010
Description: Agency debt spreads remain tight, despite the slower pace of purchases.

* Fannie Mae 5-yr benchmark spread to Treasury Return to text

Source: JP Morgan Chase

Bottom-left panel (17)

Title: Percent of Outstanding MBS Owned by SOMA*
Series: Percent of outstanding Fannie Mae 30-year MBS owned by SOMA by coupon
Horizon: March 3, 2010
Description: SOMA's holdings of MBS represent a sizable proportion of the outstanding supply across the coupon stack.

* Fannie Mae 30-yr Return to text

Source: Federal Reserve Bank of New York

Bottom-right panel (18)

Title: MBS Fails*
Series: 4-week moving average of dealer-reported failures to deliver MBS securities

Horizon: January 1, 2002 - March 10, 2010
Description: The volume of settlement fails has declined notably in recent weeks.

* 4-wk moving average Return to text

Source: FR2004

Exhibit 4

Top-left panel
(19)

Title: Domestic SOMA Portfolio Composition
Series: Current composition of the SOMA portfolio
Horizon: January 3, 2007 - February 10, 2010
Description: The size of the balance sheet has leveled out around $2.3 trillion.

Agency MBS, Agency Debt, TIPS, Coupons, Bills

Source: Federal Reserve Bank of New York

Top-right panel
(20)

Title: SOMA Modified Duration
Series: Modified duration of the Treasury, agency MBS, agency debt, and aggregate SOMA portfolio
Horizon: January 1, 1990 - February 24, 2010
Description: The duration of the balance sheet has increased from typical levels to more than 4 years.

Source: Federal Reserve Bank of New York

Middle panel
(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. Return to table

[Strong emphasis (bold) in data values indicates red text in the original document.]

Source: Federal Reserve Bank of New York

Bottom-left panel
(22)

Title: Alternate Paths for the Size of SOMA*
Series: Projected size of the balance sheet under a policy of full Treasury redemptions and under a policy of no

Treasury redemptions.
Horizon: 2006 - 2016
Description: Estimates of the size of the balance sheet under different assumptions concerning the treatment of maturing Treasury securities.

* Forecast as of 3/3/2010 Return to text

Source: Federal Reserve Bank of New York

Bottom-right panel
(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**

[Strong emphasis (bold) in data values indicates red text in the original document.]

Source: Federal Reserve Bank of New York

Appendix 2: Materials used by Mr. Stockton

Page 1

Top panel
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]
Total								
Starts	554	540	587	559	573	591	611	575
Permits	572	529	573	598	653	621	622	612
Single-family								
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
Multifamily								
Starts	109	115	89	78	92	107	109	76
Permits	137	123	113	124	148	114	118	109
	132	123	114	125	148	114	118	109

Category	2009	2009			2009	2010		
		Q2	Q3	Q4[r]	Dec.	Jan.[p]	Jan.[r]	Feb.[p]
Adjusted permits[1]								
Permits backlog[2]	40	39	37	40	40	38	38	39
Regional starts[3]								
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 Return to table

p preliminary Return to table

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

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. Return to table

3. Sum of single-family and multifamily starts. Return to table

Source: Census Bureau.

Bottom panel
Private Housing Starts and Permits

Single-family starts, single-family adjusted permits and multifamily starts. Data plotted as curves. The period covered is from January 1999 through February 2010. All three curves are shown in millions of units at a seasonally adjusted annual rate. The contour of the curves for single-family starts and single-family adjusted permits are almost the same throughout the period covered, with starts lagging permits slightly. While there is some variation from month to month, single family starts and permits remained relatively flat through 2001, and then trended upward through 2005. Starting in 2006 both series fell drastically until reaching a "trough" at the beginning of 2009. Since then they have both increased slightly, but for the most part remained flat. For the most recent month of data (February 2010), both single-family starts and permits fell slightly from the previous month to about 0.5. The third curve is multifamily starts, which has an overall lower level, and different contour than single-family starts and permits. Multifamily starts were flat from 1999 through mid-2008, at which point they decreased through 2009. The most recent month of data (February 2010) was a decrease over the previous month to less than 0.1.

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

Source: Census Bureau.

Appendix 3: Materials used by Mr. Dudley

Page 1

Top panel
Figure 1: Core CPI Inflation with and without Shelter

Series: 3-month annualized Core CPI, Core CPI without Shelter, Shelter CPI component
Horizon: January 2005 - January 2010
Description: 3-month annualized Core CPI has fallen to roughly zero in recent months, with the Shelter

component seeing a precipitous fall into negative territory. Without Shelter, Core CPI has fallen somewhat to a roughly 2% annualized rate.

Source: Bureau of Labor Statistics

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

Series: Annualized inflation before vs. after September 2008 for all subcomponents of Core PCE, with size of plotted circle corresponding to weighting in index.
Horizon: Before: December 2005 - September 2008; After: September 2008 - January 2010
Description: Within the subcomponents of Core PCE, there is generally a roughly one-to-one correspondence between inflation observed before and after September 2008. Among the outliers, however, the Housing component stands out; despite roughly 4% annualized inflation before September 2008, it has seen near-zero inflation since then. It also comprises a fairly significant portion of the index.

Components include Accommodation, Communication, Education Services, Educational Books, Furniture and Furnishings, Household Dishes and Utensils, Housing, Jewelry and Watches, Multimedia Equipment, New Motor Vehicles, Public Transportation, Telephone and Fax Equipment, and Used Motor Vehicles.

Source: Bureau of Economic Analysis, FRBSF/FRBNY Staffs

Appendix 4: Materials used by Mr. Madigan

Material for **Briefing on Monetary Policy Alternatives**

Brian Madigan
March 16, 2010

Class I FOMC - Restricted Controlled (FR)

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 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 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.

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

March FOMC Statement -- Alternative A

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.**

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.

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.

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

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.

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.]**

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.**

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

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.

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**.

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**.

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.**

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′

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.

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**.

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**.

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.**

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′
		Economic Activity		
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"
		Inflation		
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"
		Timing and Sequence of Policy Firming		
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
		Agency MBS Purchases		
Amount	$1.25 trillion	$1.4 trillion	$1.25 trillion	

	January FOMC	March Alternatives A	B	C / C′
Duration	executed by the end of the first quarter	extended through the end of the second quarter	executed by the end of this month	
Focus of Policy Evaluation				
	"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. Return to table

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.

[Note: In the March FOMC Directive Alternatives, strong emphasis (bold) indicates bold blue text in the original document.]

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.

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