Appendix 1: Materials used by Mr. Sack
Material for

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

Brian Sack

August 10, 2010
(1) Implied Federal Funds Rate

- 8/6/10
- 6/22/10
- 4/27/10

Source: Federal Reserve Bank of New York

(2) Modal Forecast of First Rate Hike

Source: Federal Reserve Bank of New York Dealer Policy Survey

(3) Probability of Policy Actions by Year-End

Source: Federal Reserve Bank of New York Dealer Policy Survey

(4) Treasury Yields

Source: Bloomberg

(5) 10-Year Term Premium

Source: Federal Reserve Board of Governors

(6) Breakeven Inflation Rates

Source: Federal Reserve Board of Governors
(7) US Equity Prices (S&P 500 Index)

Source: Bloomberg

(8) VIX Index

Source: Bloomberg

(9) Euro Area Bank CDS*

*Average bank CDS by country. Source: Bloomberg

(10) LIBOR-OIS Spreads (3-Month Rates)*

*Forward rates derived from FRA and OIS. Source: Bloomberg

(11) US Dollar Indexes

Source: Bloomberg, Federal Reserve Board of Governors

(12) Net Primary Dealer Borrowing

Source: FR2004
(13) MBS Fails*

*4-week moving average.
Source: FR2004

(14) MBS Settlements

<table>
<thead>
<tr>
<th>Coupon</th>
<th>Unsettled on 6/23 (1)</th>
<th>Coupon Swap Activity (2)</th>
<th>Other Settlements (3)</th>
<th>Unsettled on 8/6 (4)</th>
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<tbody>
<tr>
<td>4.5</td>
<td>1.6</td>
<td>9.2</td>
<td>-10.5</td>
<td>0.3</td>
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<tr>
<td>5.0</td>
<td>6.0</td>
<td>0.0</td>
<td>-4.0</td>
<td>2.1</td>
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<tr>
<td>5.5</td>
<td>9.2</td>
<td>-9.2</td>
<td>-0.1</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Bank of New York

(15) MBS Spread to Treasury

* Fannie Mae fixed-rate current coupon OAS.
Source: Barclays Capital

(16) Agency MBS Net Issuance

Source: JP Morgan Chase

(17) Cumulative SOMA Paydowns

Source: Federal Reserve Bank of New York

(18) SOMA Financial Condition

<table>
<thead>
<tr>
<th></th>
<th>Market Value</th>
<th>Unrealized G/(L)</th>
<th>Realized Income Over 12-Months*</th>
</tr>
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<tbody>
<tr>
<td>Treasury</td>
<td>869</td>
<td>64.6</td>
<td>24.6</td>
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<tr>
<td>Agency</td>
<td>171</td>
<td>5.2</td>
<td>3.0</td>
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<tr>
<td>MBS</td>
<td>1,180</td>
<td>44.8</td>
<td>40.4</td>
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<tr>
<td>Total</td>
<td>2,220</td>
<td>114.6</td>
<td>67.9</td>
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*Realized income = interest income net of funding costs + realized gains
Source: Federal Reserve Bank of New York, JP Morgan Chase
Appendix 2: Materials used by Chairman Bernanke
Twelve-Month Forward Earnings Expectations for S&P 500 Firms

Mean earnings expectations

Three-month percent change

Coefficient of variation

Note. Twelve-month forward earnings expectations refer to expectations of earnings over the next 12 months and are calculated on a pro-rated basis as a weighted average of current fiscal year and next fiscal year earnings expectations. Analyst dispersion is the within-firm analyst dispersion on twelve-month forward earnings expectations averaged across all firms.
NFIB Survey Results on Most Important Problem for Small Businesses
(selected categories)

Note. Respondents can report that their most important problem is: weak demand, interest rates and finance, inflation, taxes, government regulation, cost and availability of insurance, quality of labor, cost of labor, competition from large businesses, and other.

Not seasonally adjusted.
Inflation Expectations and Inflation in Japan

1. Survey Measures of Inflation Expectations

![Graph showing inflation expectations from 1995 to 2010 with key events marked such as Start of ZIRP, End of ZIRP, Start of QEP, Exit conditions clarified, and End of QEP. The graph includes lines for 1 year ahead, 2-5 years ahead, and 5-10 years ahead expectations. Source: Consensus Economics.]

2. Consumer Price Inflation

![Graph showing consumer price inflation from 1995 to 2010 with key events marked such as Start of ZIRP, End of ZIRP, Start of QEP, Exit conditions clarified, and End of QEP. The graph includes lines for Headline and CPI ex. food and energy. Source: Haver, with staff adjustments.]

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Appendix 3: Materials used by Mr. English
Class I FOMC – Restricted-Controlled FR

Material for
FOMC Briefing on Monetary Policy Alternatives

Bill English
August 10, 2010
JUNE FOMC STATEMENT

1. Information received since the Federal Open Market Committee met in April suggests that the economic recovery is proceeding and that the labor market is improving gradually. Household spending is increasing 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 continues to be weak and employers remain reluctant to add to payrolls. Housing starts remain at a depressed level. Financial conditions have become less supportive of economic growth on balance, largely reflecting developments abroad. Bank lending has continued to contract in recent months. Nonetheless, the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, although the pace of economic recovery is likely to be moderate for a time.

2. Prices of energy and other commodities have declined somewhat in recent months, and underlying inflation has trended lower. With substantial resource slack continuing to restrain cost pressures and longer-term inflation expectations stable, inflation is likely to be subdued for some time.

3. 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.

4. 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.
AUGUST FOMC STATEMENT—ALTERNATIVE A

1. Information received since the Federal Open Market Committee met in April over recent months has increasingly suggested that the economic recovery in economic activity and the labor market is proceeding at an unsatisfactory pace and that the labor market is improving gradually. Household spending is increasing only gradually but and remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software has risen significantly is rising less rapidly than earlier in the year, and the contribution of inventory investment to growth is likely to wane. However, Investment in nonresidential structures continues to be weak, and employers remain reluctant to add to payrolls. Housing starts remain at a depressed level. Financial conditions have become somewhat less supportive of economic growth in recent months, on balance, largely reflecting developments abroad. and bank lending has continued to contract in recent months. Nonetheless, Although the Committee still anticipates a gradual return to higher levels of resource utilization in a context of price stability, although the pace of economic recovery is likely to be moderate for a time the near-term outlook for economic activity has weakened.

2. Prices of energy and other commodities have declined somewhat in recent months, and Measures of underlying inflation has have trended lower in recent quarters. With substantial resource slack continuing to restrain cost pressures and longer-term inflation expectations stable, inflation is likely to be subdued remain, for some time, below levels that the Committee considers most consistent with its mandate to promote maximum employment and stable prices.

3. To support the economic recovery, the Committee will maintain decided to reduce the target range for the federal funds rate at to 0 to ¼ ⅛ 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. Consistent with this reduction, the Board of Governors cut the remuneration rates on required and excess reserve balances to 10 basis points effective with the reserve maintenance period beginning August 12. The Committee anticipates maintaining this range for the federal funds rate until resource utilization and underlying inflation have moved appreciably closer to levels consistent with its longer-term objectives.

4. To provide additional support for the economic recovery in a context of price stability, the Committee will maintain the Federal Reserve’s holdings of longer-term securities at their current level by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities [alternatively: in agency mortgage-backed securities]. The Committee will continue to roll over the Federal Reserve’s holdings of Treasury securities as they mature.

5. 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.

* The Open Market Desk will issue a technical note shortly after the statement providing operational details on how it will carry out these transactions.
AUGUST FOMC STATEMENT—ALTERNATIVE B

1. Information received since the Federal Open Market Committee met in April suggests that the economic pace of recovery in output and employment has slowed in recent months is proceeding and that the labor market is improving gradually. Household spending is increasing gradually, but remains constrained by high unemployment, modest income growth, lower housing wealth, and tight credit. Business spending on equipment and software has risen significantly is rising; however, investment in nonresidential structures continues to be weak and employers remain reluctant to add to payrolls. Housing starts remain at a depressed level. Financial conditions have become less supportive of economic growth on balance, largely reflecting developments abroad. Bank lending has continued to contract in recent months. Nonetheless, the Committee anticipates a gradual return to higher levels of resource utilization in a context of price stability, although the pace of economic recovery is likely to be more modest in the near term than had been anticipated.

2. Prices of energy and other commodities have declined somewhat in recent months, and Measures of underlying inflation have trended lower in recent quarters, and, with substantial resource slack continuing to restrain cost pressures and longer-term inflation expectations stable, inflation is likely to be subdued for some time[, at levels lower than are desirable over the long run].

3. 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.

4. To help support a more timely return to those objectives the economic recovery in a context of price stability, the Committee will maintain the Federal Reserve’s holdings of longer-term securities at their current level by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities [alternatively: in agency mortgage-backed securities]. The Committee will continue to roll over the Federal Reserve’s holdings of Treasury securities as they mature.

5. 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.

* The Open Market Desk will issue a technical note shortly after the statement providing operational details on how it will carry out these transactions.
AUGUST FOMC STATEMENT—ALTERNATIVE C

1. Information received since the Federal Open Market Committee met in April suggests that the economic recovery is proceeding and that the labor market is improving gradually. Household spending is increasing and business spending on equipment and software has risen significantly. However, investment in nonresidential structures continues to be weak and employers remain reluctant to add to payrolls. Financial conditions have become somewhat more supportive of economic growth in recent weeks, largely reflecting developments abroad. Bank lending has continued to contract in recent months. Though underlying inflation has trended lower, longer-term inflation expectations have remained stable. The Committee believes that a sustainable economic recovery is under way and Nonetheless, anticipates a gradual return to higher levels of resource utilization in a context of price stability, although the pace of economic recovery is likely to be moderate for a time.

2. Prices of energy and other commodities have declined somewhat in recent months, and underlying inflation has trended lower. With substantial resource slack continuing to restrain cost pressures and longer-term inflation expectations stable, inflation is likely to be subdued for some time.

2. The Committee will decided to maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipates 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. The Committee will continue its approach of not reinvesting payments of principal on mortgage-backed securities and maturing agency debt held by the System Open Market Account. As a further step toward reducing the size of the Federal Reserve’s balance sheet and the level of reserves in the banking system, on [September 1] the Committee will stop reinvesting the proceeds of maturing Treasury securities. 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.
DIRECTIVES

June 2010 FOMC Directive

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 engage in dollar roll and coupon swap 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.
August 2010 FOMC Directive — 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 \(\frac{1}{4}\) \(\frac{1}{8}\) percent. The Committee directs the Desk to purchase longer term Treasury securities during the intermeeting period to maintain the total face value of the System Open Market Account’s holdings of Treasury securities, agency debt, and agency mortgage-backed securities at approximately $2 trillion. The Committee directs the Desk to maintain the total face value of domestic securities held in the System Open Market Account at approximately $2 trillion by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities [alternatively: in agency mortgage-backed securities]. The Committee directs the Desk to engage in dollar roll and coupon swap 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.
August 2010 FOMC Directive — 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 longer-term Treasury securities during the intermeeting period to maintain the total face value of the System Open Market Account’s holdings of Treasury securities, agency debt, and agency mortgage-backed securities at approximately $2 trillion. The Committee directs the Desk to maintain the total face value of domestic securities held in the System Open Market Account at approximately $2 trillion by reinvesting principal payments from agency debt and agency mortgage-backed securities in longer-term Treasury securities [alternatively: in agency mortgage-backed securities]. The Committee directs the Desk to engage in dollar roll and coupon swap 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.
June 2010 FOMC Directive — 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 engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve’s agency MBS transactions.

To gradually reduce the size of the Federal Reserve’s balance sheet over time, the Committee directs the Desk to not reinvest the proceeds of maturing Treasury securities held by the System Open Market Account, effective September 1, 2010, and to maintain its practice of not reinvesting the proceeds of maturing agency debt and payments on agency mortgage-backed securities held by the System Open Market Account. 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.