Appendix 1: Materials used by Mr. Sack

Material for

FOMC Presentation:
Financial Market Developments and Desk Operations

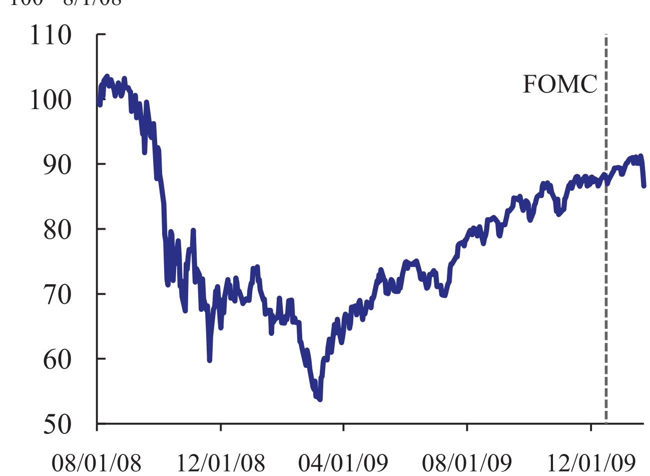
Brian Sack

January 26, 2010

Class II FOMC – Restricted FR

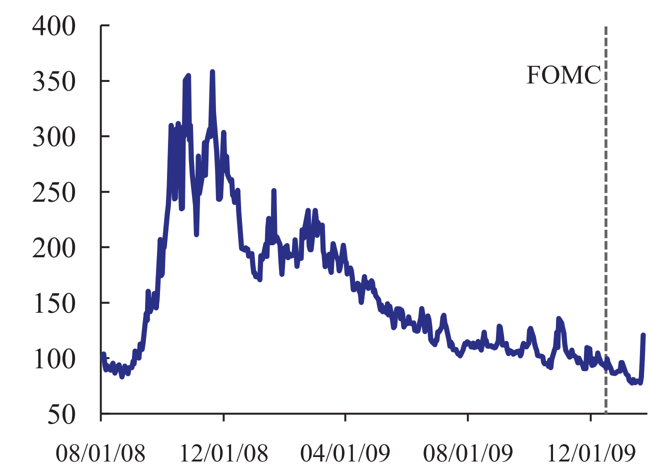
Exhibit 1

(1) US Equity Prices (S&P 500)



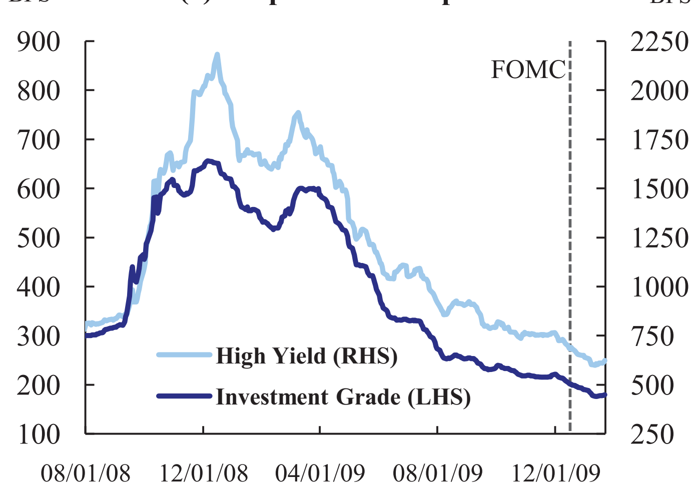
Source: Bloomberg

(2) VIX Index



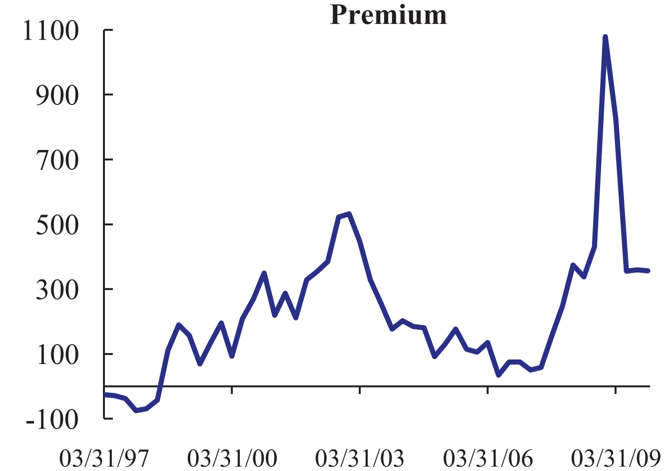
Source: Bloomberg

(3) Corporate Debt Spreads



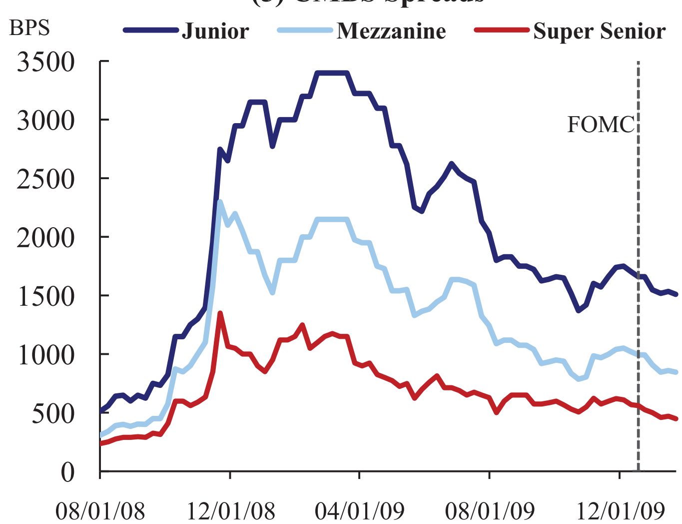
Source: Bank of America

(4) High Yield Corporate Bond Risk Premium



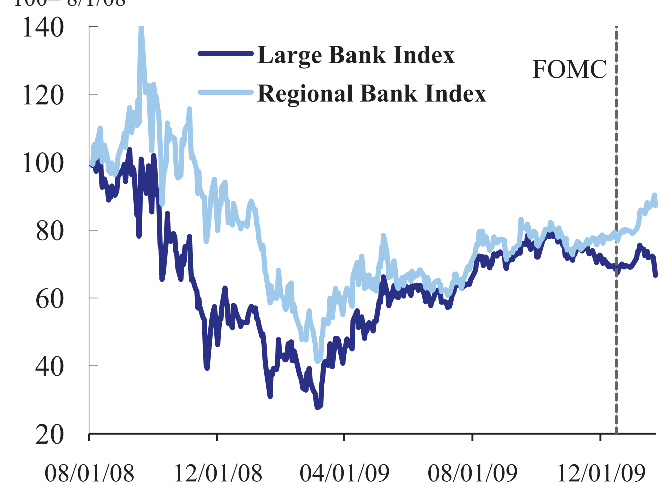
Source: Federal Reserve Bank of New York

(5) CMBS Spreads



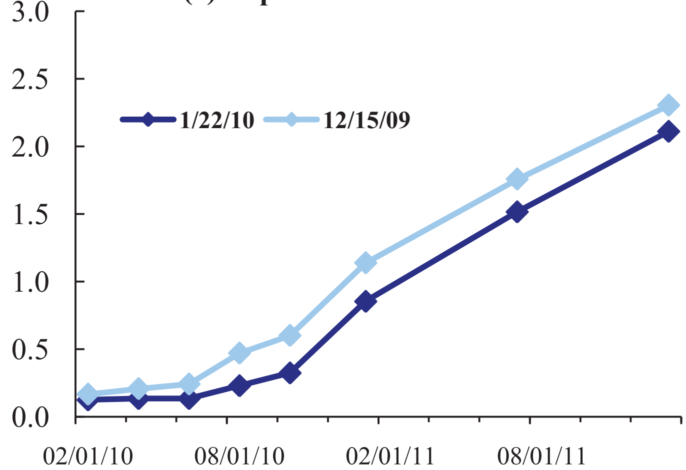
Source: JP Morgan Chase

(6) US Equity Indices for Financial Firms



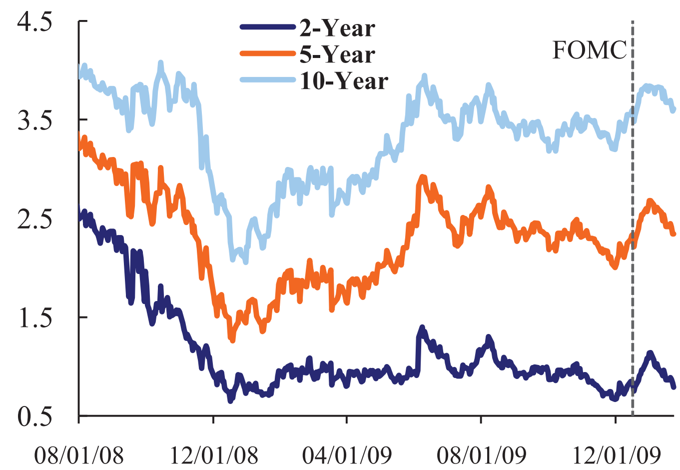
Source: Bloomberg, Federal Reserve Bank of New York

(7) Implied Federal Funds Rate



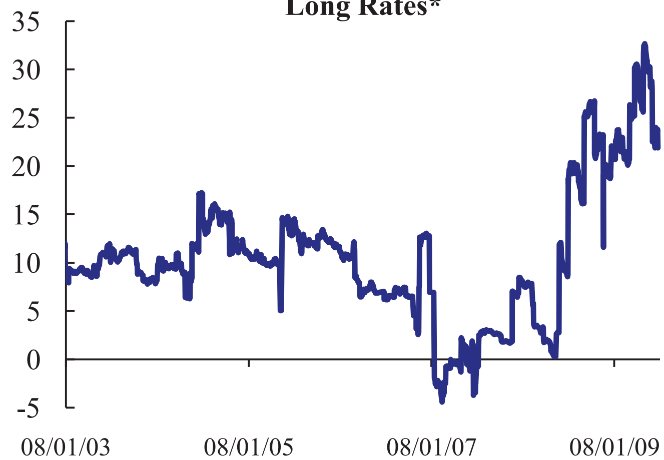
Source: Federal Reserve Bank of New York

(8) Treasury Yields



Source: Bloomberg

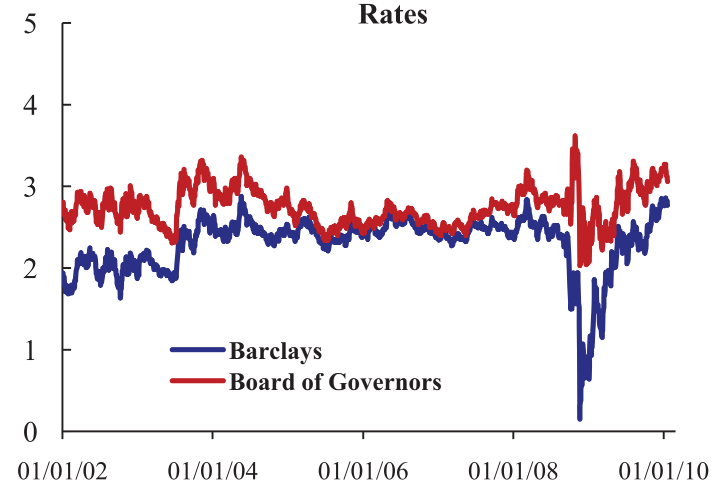
(9) Premium for Skew toward Higher Long Rates*



*3-month, 10-year payer skew; 100 bps out-of-the-money puts less at-the-money options

Source: JP Morgan Chase

(10) 5-Year 5-Year Forward Breakeven Rates



Source: Federal Reserve Board of Governors, Barclays Capital

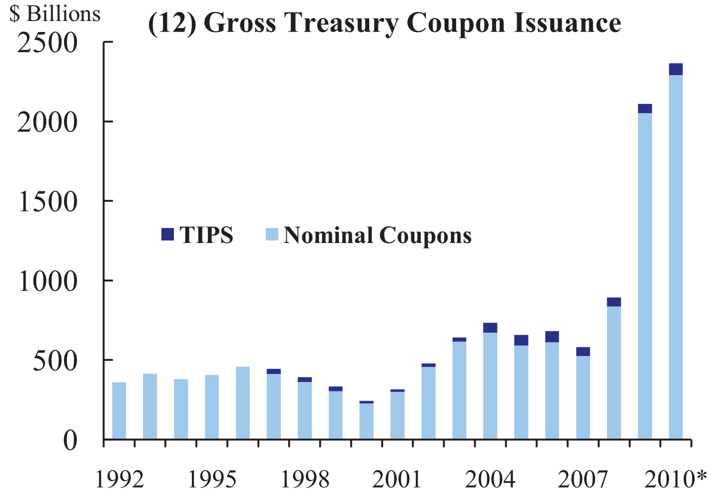
(11) 5-Year 5-Year Forward Breakeven Statistics*

	Current Level	Pre-Crisis Range	Percent Rank
Barclays	2.77	1.63-2.88	98.2
Board of Governors	3.06	2.31-3.36	89.2

*Pre-crisis range is January 2002 – July 2007

Source: Barclays Capital, Federal Reserve Board of Governors

(12) Gross Treasury Coupon Issuance



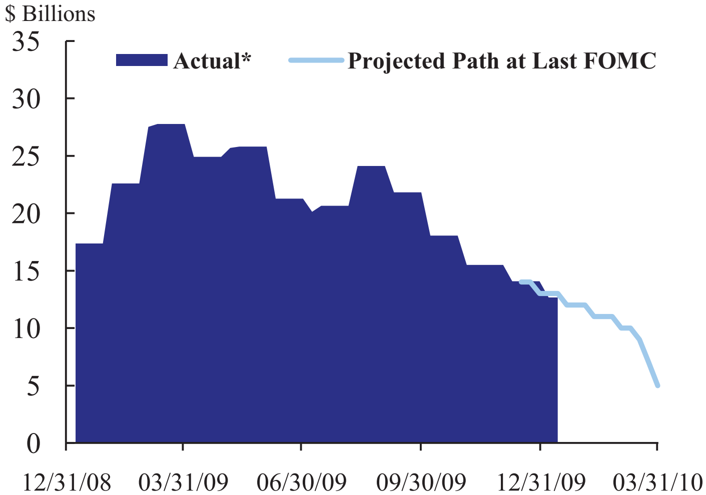
*Projected

Source: US Treasury, Wrightson ICAP

Class II FOMC – Restricted FR

Exhibit 3

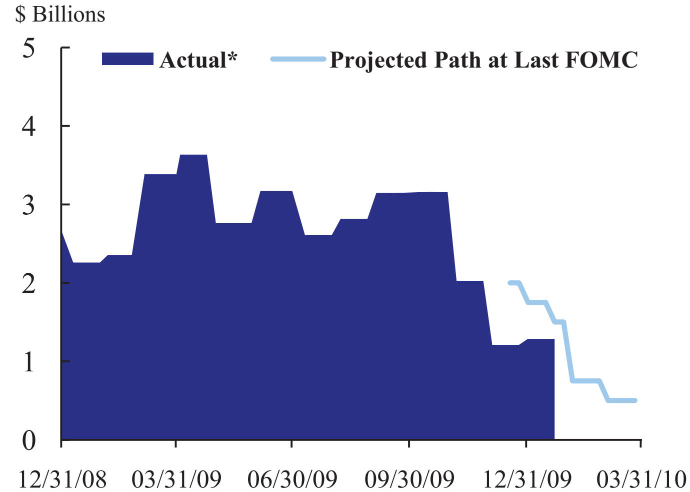
(13) Weekly Pace of MBS Purchases



*Monthly average

Source: Federal Reserve Bank of New York

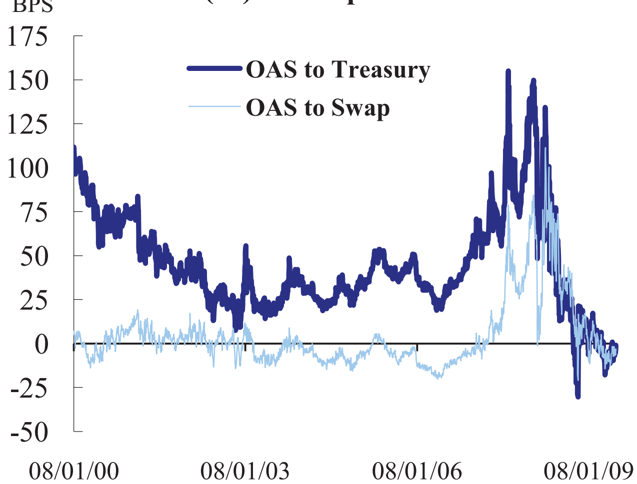
(14) Weekly Pace of Agency Debt Purchases



*Monthly average

Source: Federal Reserve Bank of New York

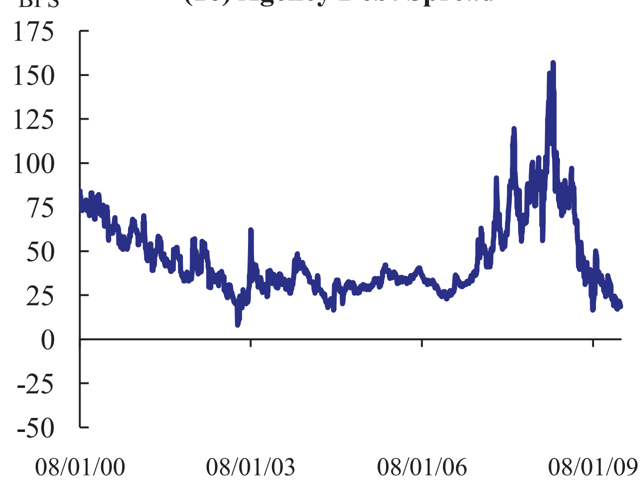
(15) MBS Spreads*



* Fannie Mae fixed-rate current coupon spreads

Source: Barclays Capital

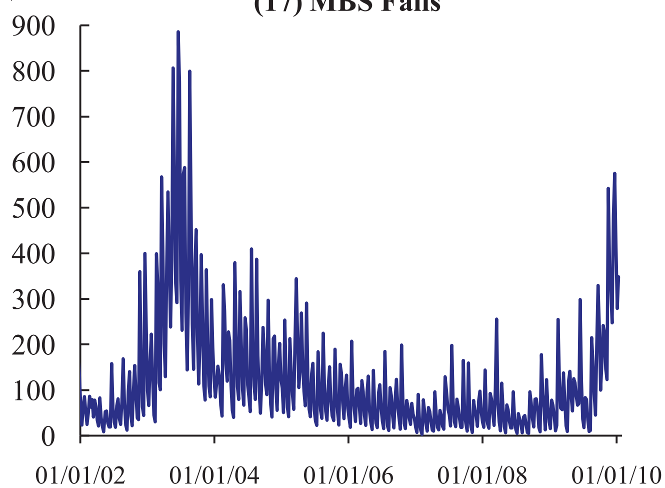
(16) Agency Debt Spread*



*Fannie Mae 5-year benchmark spread to Treasury

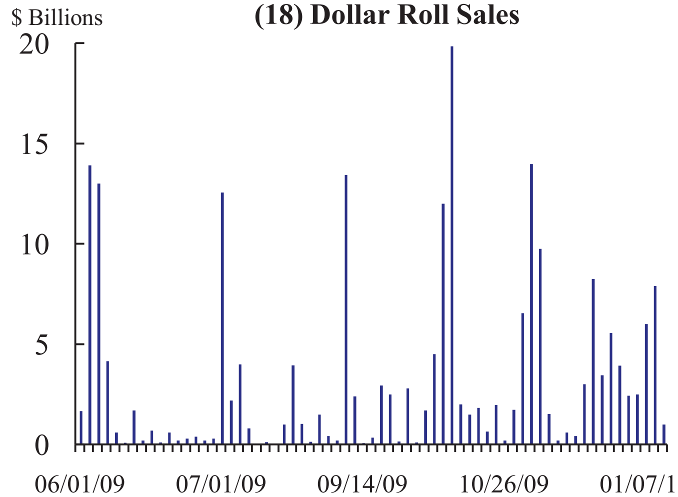
Source: JP Morgan Chase

(17) MBS Fails



Source: FR2004

(18) Dollar Roll Sales

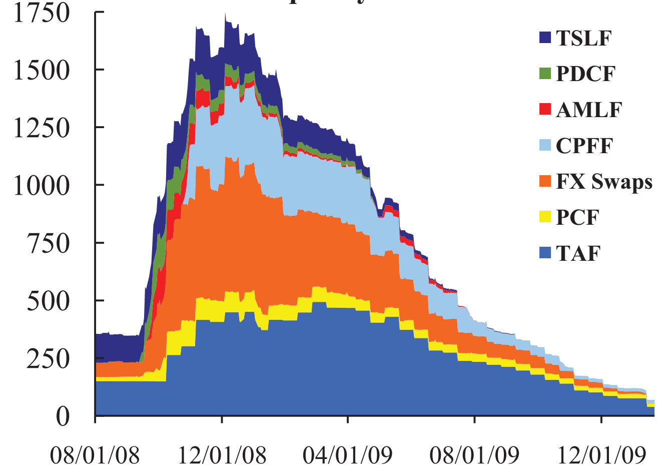


Source: Federal Reserve Bank of New York

Class II FOMC – Restricted FR

Exhibit 4

(19) Federal Reserve Short-Term Liquidity Facilities



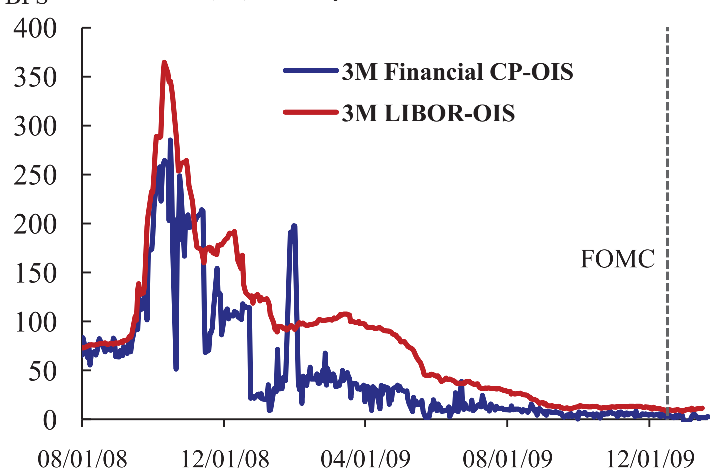
Source: Federal Reserve Bank of New York

(20) Liquidity Facility Usage

(Levels in $ Billions)	Current Outstanding	Peak Outstanding	Peak Date
TSLF	0	223	12/4/08
PDCF	0	156	9/29/08
AMLF	0	152	10/1/08
CPFF	3.9	351	1/23/09
FX Swaps	0.2	586	12/4/08
PCF	14.9	114	10/28/08
TAF	38.5	493	3/11/09

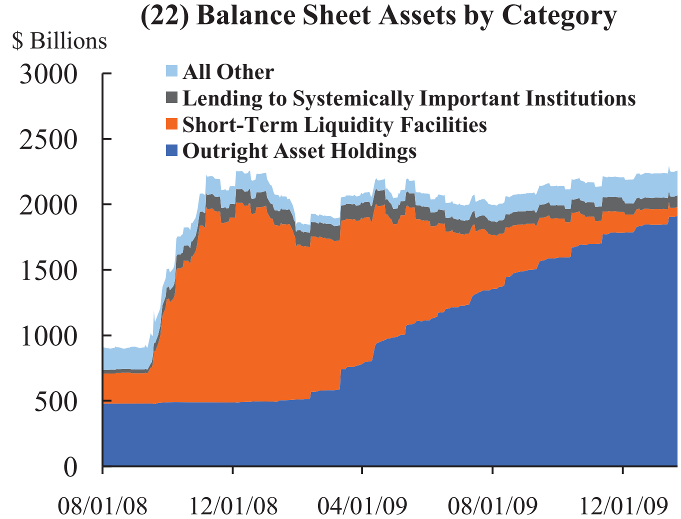
Source: Federal Reserve Bank of New York, Federal Reserve Board of Governors

(21) Money Market Rates



Source: Bloomberg, Federal Reserve Board of Governors

(22) Balance Sheet Assets by Category



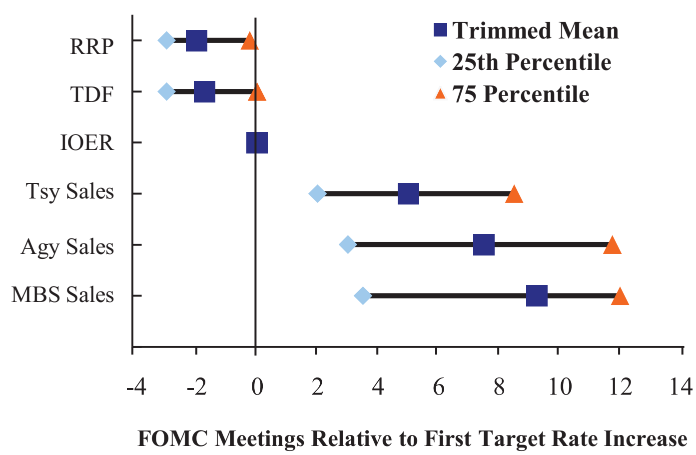
Source: Federal Reserve Bank of New York

(23) Expected Use of Exit Tools Relative to First Target Rate Increase (% of Respondents)

	Before	Concurrent	After	Never
RRP	73	23	4	0
TDF	70	23	5	2
IOER	15	75	10	0
Tsy Sales	6	0	60	34
Agy Sales	6	0	60	34
MBS Sales	4	2	60	34

Source: Federal Reserve Bank of New York Exit Survey

(24) Expected Timing of Exit Tools

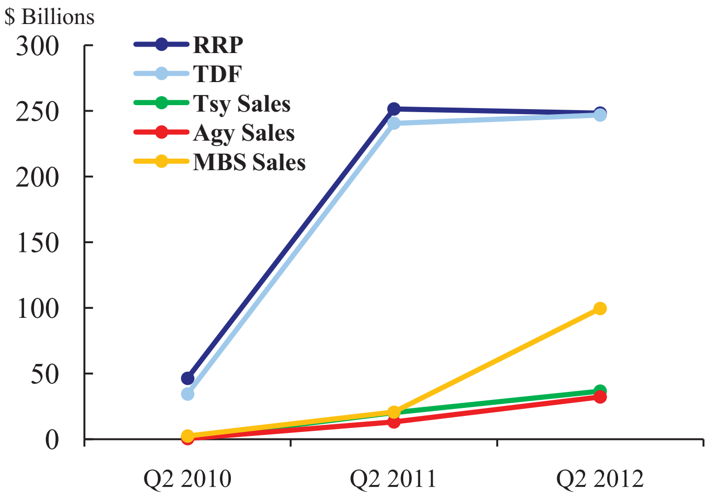


Source: Federal Reserve Bank of New York Exit Survey

Class II FOMC – Restricted FR

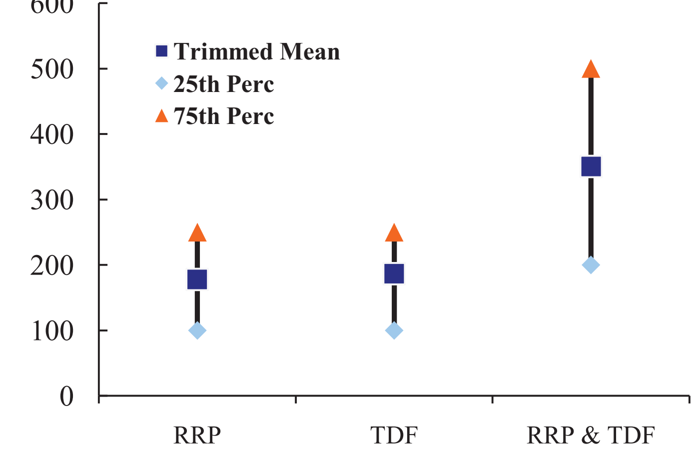
Exhibit 5

(25) Cumulative Size of Exit Programs



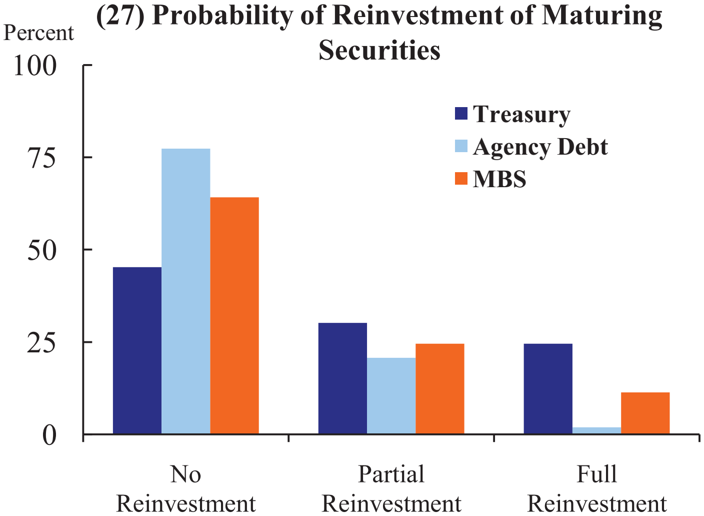
Source: Federal Reserve Bank of New York Exit Survey

(26) Estimated Maximum Usage Over 6 Week Period



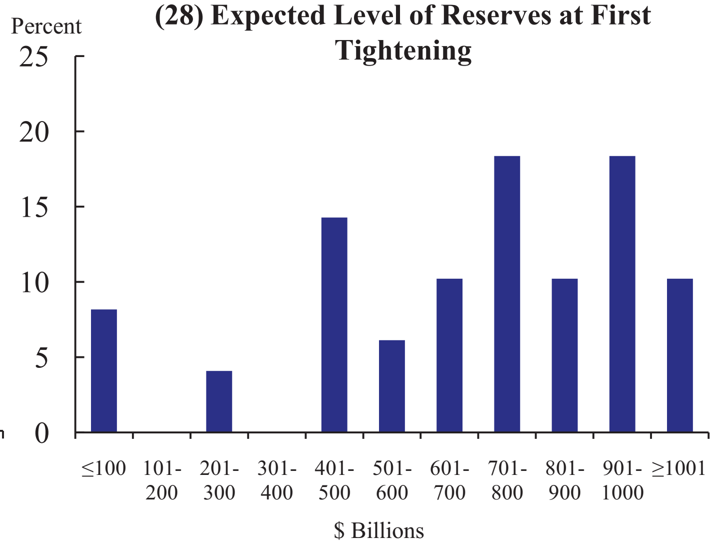
Source: Federal Reserve Bank of New York Exit Survey

(27) Probability of Reinvestment of Maturing Securities



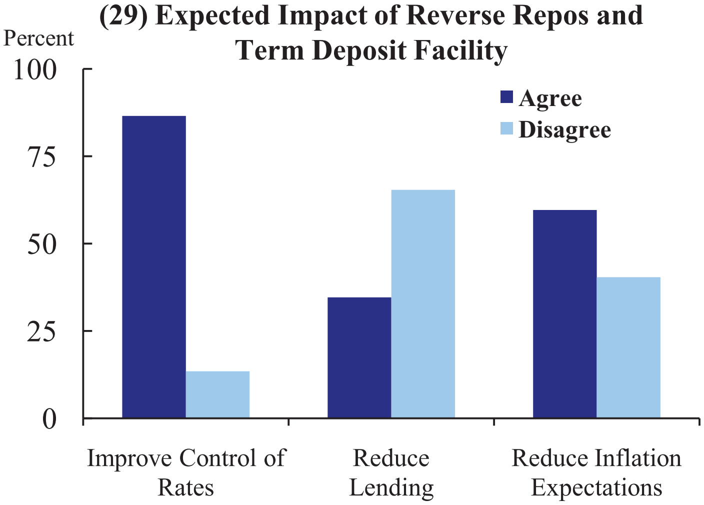
Source: Federal Reserve Bank of New York Exit Survey

(28) Expected Level of Reserves at First Tightening



Source: Federal Reserve Bank of New York Exit Survey

(29) Expected Impact of Reverse Repos and Term Deposit Facility



Source: Federal Reserve Bank of New York Exit Survey

(30) Spread between Implied IOER and Federal Funds Effective Rate (in BPS)*

		Level of Excess Reserves		
		$1 Trillion	*$500 Billion*	*$0 - $25 Billion*
IOER Rate	*25 BPS*	10	5-7	0
	100 BPS	15-29	10-20	0
	200 BPS	20-50	10-25	0

*Includes 25th to 75th percentile of responses

Source: Federal Reserve Bank of New York Exit Survey

Appendix 2: Materials used by Messrs. Clouse and Hilton

Class I FOMC– Restricted Controlled (FR)

Material for Briefing on Strategies for the Removal of Policy Accommodation

Jim Clouse
Spence Hilton
January 26, 2010

Update on Reserve-Draining Tools

- Capability to conduct RRP with MBS anticipated in late March.
- Capability to conduct RRP with expanded counterparties anticipated in late spring.
- TDF
  - Public comments due February 1
  - Board could issue final rule in March
  - Facility could be fully operational in May
- Capability to conduct term RRP with foreign accounts may be available in July.
- Reserve Collateral Accounts (RCAs)
  - Steering group being assembled to develop work plans.

Hypothetical Use of Draining Tools

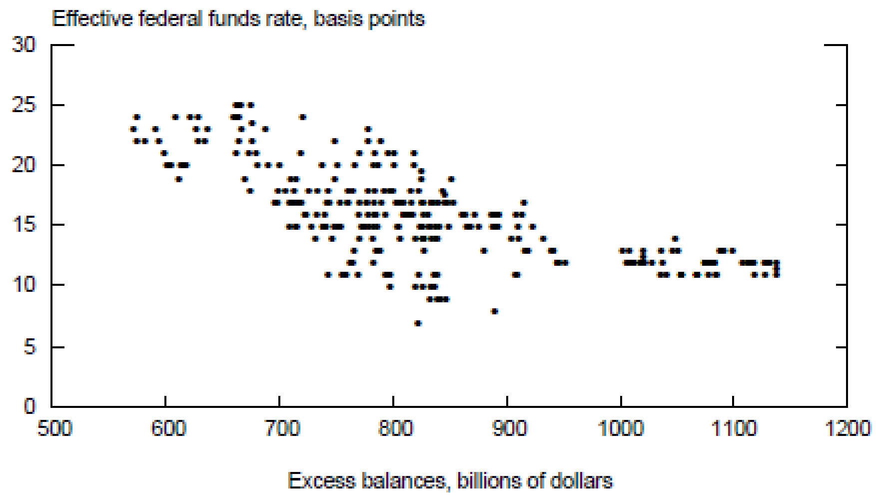
	Reserve Balances With Alternative Assumptions About Reserve Draining Tools ($ Billions)				Assumed Paths for Tools		
	No Tools	RRP	RRP + TDF	RRP + TDF + Foreign RRP	RRP	TDF	Foreign RRP
March	1269	1249	1249	1249	20	0	0
April	1172	1112	1112	1112	60	0	0
May	1252	1132	1057	1057	120	75	0
June	1205	1020	870	870	185	150	0
July	1194	949	724	674	245	225	50
August	1179	874	574	474	305	300	100
September	1163	758	408	308	405	350	100
October	1149	644	294	194	505	350	100
November	1135	630	280	180	505	350	100
December	1122	617	267	167	505	350	100

See "Projections of System Capacity to Absorb Reserve Balances," by Chris Burke, Seth Carpenter, and Jane Ihrig

Funds Rate and Reserve Demand

- What quantity of reserves must be drained to align funds rate and IOER?
- How will funds rate respond to increase in IOER?

Figure 3. Effective federal funds rate versus excess balances



Note. Sample period is from December 4, 2008 to December 16, 2009.

See "Reserves and the Federal Funds Rate," by Gara Afonso, Chris Burke, Seth Carpenter, Jane Ihrig, Dennis Kuo, James McAndrews, John McGowan, Asani Sarkar, Jeffrey Shrader, David Skeie, and Victor Stebunovs.

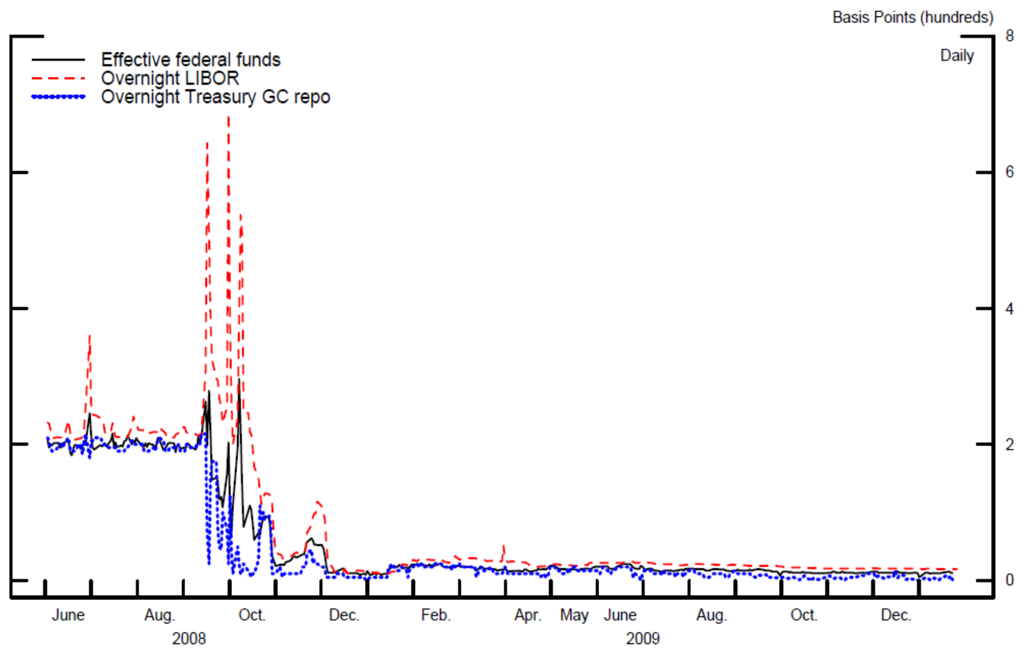
Spread of IOER Rate Over Funds Rate with Alternative Assumptions Regarding the Level of IOER and Excess Balances(Basis Points)			
	Level of Excess Reserves ($ Billions)		
IOER (Percent)	**1000**	**500**	**25**
0.25	10	6	-1
1.00	30	17	-3
2.00	44	26	-3

See "Exit Strategy Survey: Themes and Messages," by Mike McMorrow, Ellen Correia, and Mike Lementowski

Alternative Target Rates

- In some scenarios, linkage of federal funds rate to other short-term rates could be loosened.
  - But apparently not so far.
- Alternative market rates include…
  - Libor, eurodollar, repo rates
  - Institutional factors could affect choice
  - Response of rates to shocks could differ
- IOER rate could be used as primary policy instrument
  - Monitor a collection of money market rates (similar to BoE).
  - Still questions about connection between IOER and market rates
  - Governance issues in determination of IOER rate

Selected Short-Term Interest Rates, June 1, 2008 to present



See "Alternative Interest Rate Operating Targets," by Tobias Adrian, Haley Boesky, David Bowman, Chris Burke, Seth Carpenter, Margaret DeBoer, Michiel DePooter, Spence Hilton, Jane Ihrig, Mike Leahy, James McAndrews, Steve Meyer, Edward Nelson, Michael Palumbo, Roberto Perli, and Matthew Raskin.

Foreign Experience with Interest on Reserves

- Most policy rate floors are effective
  - But somewhat less so in United Kingdom
  - Foreign experience (like U.S. experience) indicates that effectiveness of floor depends on scope of access to central bank accounts

- Central banks with "floor systems" have been able to tighten policy by raising IOER or deposit rate even with substantial excess reserves.
  - Norges Bank has tightened policy with high reserves.

- Caveat
  - Experience in other countries may be an imperfect guide to likely outcomes in the United States.

See "Interest on Excess Reserves as a Monetary Policy Instrument: The Experience of Foreign Central Banks," by David Bowman, Etienne Gagnon, and Mike Leahy.

Long-Run Balance Sheet Management Issues

- Long-run policy implementation framework
  - Move away from mandatory reserve requirements?
  - Adopt corridor or floor system?
- Long-run size of the balance sheet
  - Could be used actively to pursue macro objectives
- Long-run composition of the balance sheet
  - Return to Treasuries only?
  - Shorten average maturity to increase liquidity?

See "Balance Sheet Management Issues in the Longer Term," by Jim Clouse, Spence Hilton, and Steve Meyer.

Asset Sales Strategies

Domestic SOMA Assets and Reserves
(billions of dollars)

	Levels		**Potential for Cumulative Redemptions, from 2010-Q2**					
SOMA Assets	*2007-Q2*	*2010-Q2*	*2010-Q4*	*2011-Q4*	*2012-Q4*	*2013-Q4*	*2014-Q4*	*2015-Q4*
Agency MBS	0	1,135	-45	-120	-185	-245	-300	-365
Agency Debt	0	170	-20	-60	-85	-105	-125	-130
Treasury Debt	791	775	-85	-155	-290	-345	-415	-440
Memo: Reserves	17	1,260						

Motivations for SOMA Asset Sales and Redemptions
- Reduce Excess Reserves
- Unwind Portfolio Balance Effects on Longer Term Rates
- Rebalance the SOMA Portfolio

Risks of Aggressive Asset Sales
- Uncertainty about Rate Effects of Asset Sales
- Announcement Effect Could Cause an Immediate, Sharp Rise in Long-Term Interest Rates
- Possible Impact on Market Liquidity and Function
- Potential for Sizable Capital Losses

Federal Reserve Balance Sheet Assets under Alternative SOMA Reduction Strategies
(from "Strategies for Asset Sales and Redemptions," Keane, Lucca, Remache, and Sack)

		2010:Q2	2010:Q4	2011:Q4	2012:Q4	2013:Q4	2014:Q4	2015:Q4
Rapid Asset Sales [1]		2,346	1,666	1,040	1,096	1,153	1,215	1,266
Redemptions Only[2]		2,346	2,256	2,111	1,969	1,877	1,775	1,703
Steady and Gradual Reduction[3]		2,346	2,097	1,850	1,581	1,351	1,215	1,266
State-dependent Reduction [4]	-	-	-	-	-	-	-	-

Alternative Sequencing Strategies

Alternative Sequencing Strategies
(from "Strategies for Sequencing the Use of Reserve Draining Tools and Changes in Policy Rates," Clouse and Hilton)

Strategy	Potential Benefits	Risks/Other Issues
Ex-Post Contingent Reserve Drain	• Allows a clear test of whether draining tools are necessary, and could avoid their use altogether. • Relatively simple communications strategy.	• Risks some period in which funds rate could be well below the IOER rate.
Early Reserve Drain	• Reduces risk that funds rate will be volatile or trade below IOER rate when policy is first tightened. • Early reduction in reserve balances could help to contain inflation expectations, either by demonstrating the Fed has well-developed exit capabilities or operating through a reserve channel.	• Potential communication challenges in avoiding impression that increases in IOER and FFT rates may be imminent. • Necessarily entails use of temporary reserve draining tools, with a need for clear operating objectives in the pre-tightening interval.
Concurrent Reserve Drain	• Relatively simple communications strategy.	• Necessarily entails use of temporary reserve draining tools. • May not reduce the risk that the funds rate could trade well below the IOER rate for some period if IOER is not effective and reserve draining tools cannot be ramped up quickly without complications.

Criteria for Choosing Among Sequencing Strategies

– Degree of confidence about using IOER rate by itself to control short-term rates.

– Possibility of other benefits from draining reserves.

– Expected time frame for draining significant reserves without complications.

– Communications challenges with early reserve drain strategy.

– Costs and risks of draining operations which could prove unnecessary.

Possible Questions for Committee Discussion of Strategies for Removing Policy Accommodation

1. Over the next year, how should asset sales be used as part of the exit strategy?
   --- Relatively rapid sales (say, over $200 billion)
   --- Very gradual sales over the next year ($0 to $200 billion)
   --- Redemptions only
   --- State contingent sales (and/or purchases)

2. How should redemptions of existing SOMA holdings proceed over the next year?
   --- Redeem all agency and MBS and no Treasuries
   --- Redeem all agency and MBS and some Treasuries
   --- Redeem all agency and MBS and all Treasuries
   --- Redeem some agency and MBS and no Treasuries
   --- Redeem nothing

3. How should the use of reverse repos (RRPs) and term deposits (TDs) be sequenced relative to an increase in the IOER rate?
   --- Use RRPs and TDs only if necessary after an increase in the IOER rate (ex-post contingent strategy)
   --- Use RRPs and TDs before an increase in the IOER rate (ex-ante strategy)
   --- Use RRPs and TDs concurrent with increase in IOER rate

4. In order to ensure that that increases in the IOER rate provide a sufficient tightening of money market conditions, what volume of reserves (if any) should be drained in advance of the first IOER increase?

5. What structure for the Federal Reserve balance sheet would you favor in the long run?
   --- All Treasuries, spread across all maturities (as in previous practice)
   --- All Treasuries, but concentrated in bills and short-term coupons
   --- Treasuries, agencies, and MBS
   --- Other: ________

6. How concerned are you that the characteristics of the federal funds rate as an operating target will deteriorate significantly? Do you see strong advantages in retaining a market interest rate as an operating target? Do you see other interest rates as particularly suitable replacements for the funds rate as an operating target?

7. Will the Committee need to determine its longer-run operating framework far in advance in order to implement an effective exit strategy from the current period of extraordinary policy accommodation?

Appendix 3: Materials used by Messrs. Sichel, Palumbo, and Sheets

CLASS II FOMC - Restricted (FR)

Material for

Staff Presentation on the Economic Outlook

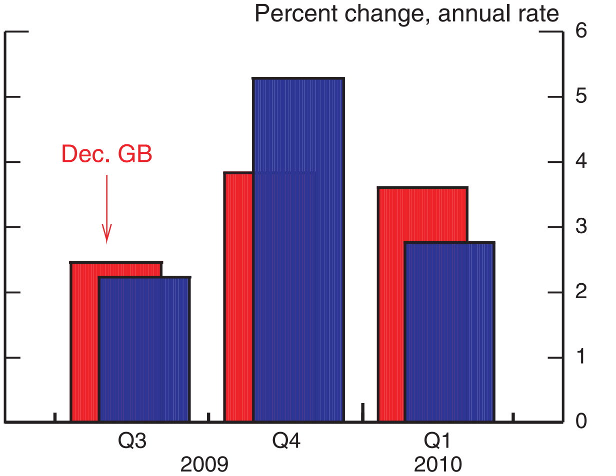
January 26, 2010

Class II FOMC - Restricted (FR)

Exhibit 1

Near-term Outlook

Real GDP

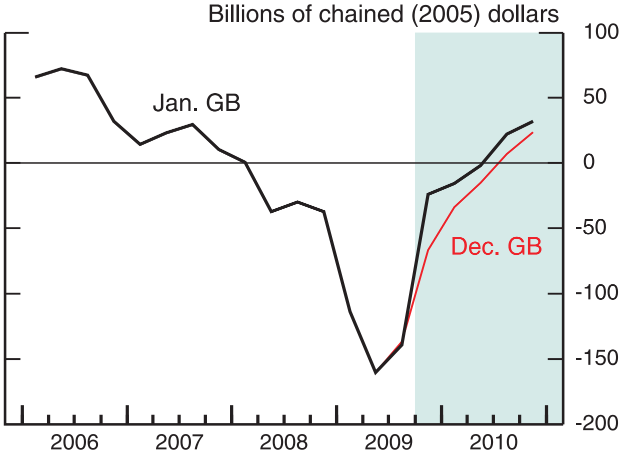


Contributions to Real GDP Growth

(Percentage points, annual rate)

	2009 Q4	2010 Q1
1. Final sales	1.6	2.5
2. Dec. GB	*1.5*	*2.6*
3. Inventories	3.7	0.3
4. Dec. GB	*2.3*	*1.0*

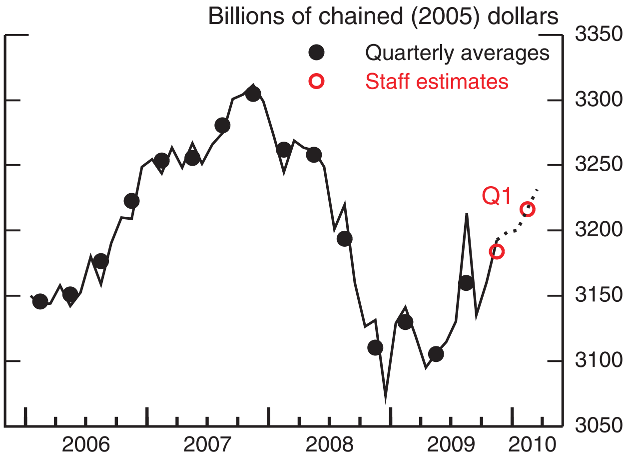
Real Inventory Investment



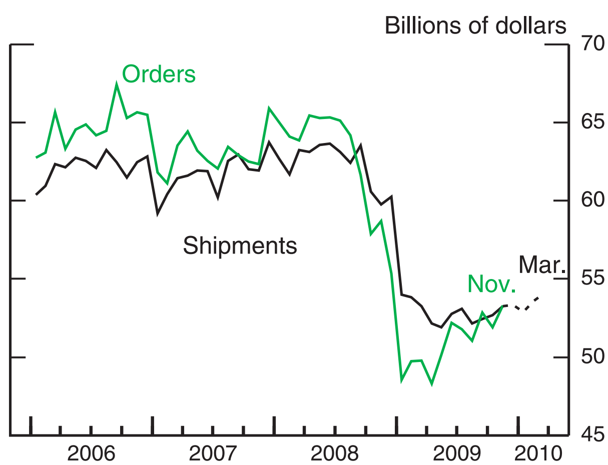
Inventory Adjustments

- Slowdown in pace of liquidation sooner than expected.
- Firms have pulled forward production adjustments.

Real PCE Goods



Orders and Shipments*



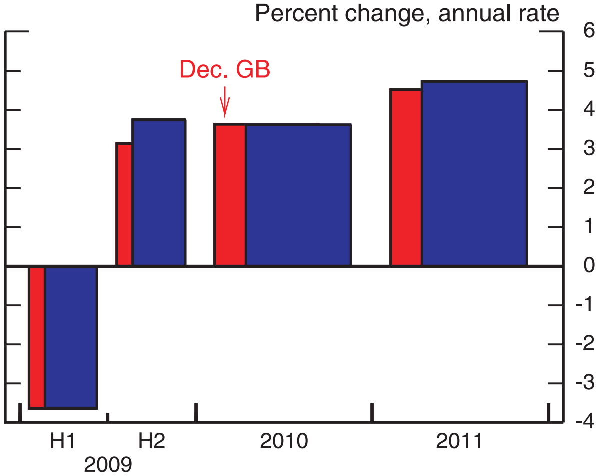
* Nondefense capital goods excluding aircraft.

Class II FOMC - Restricted (FR)

Exhibit 2

Medium-term Outlook

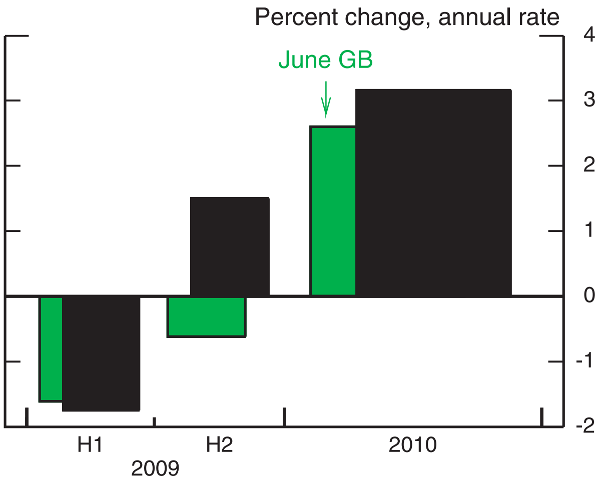
Real GDP



Factors Contributing to Recovery

- Accommodative monetary policy.
- Financial conditions more supportive of growth.
- Reduced drag from past declines in wealth.
- Improvement in confidence.

Real Final Sales: Looking Back to June 2009



Changes in the Outlook since June

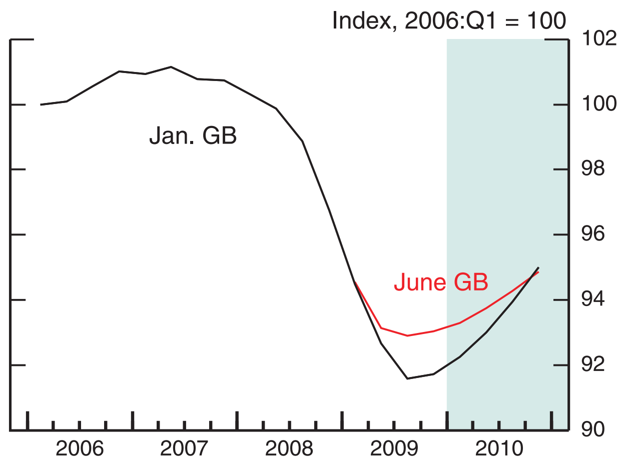
Positives
- Financial conditions
- Fiscal stimulus
- Foreign growth and dollar

Negatives
- Labor markets

Financials: 2010:Q1 Value versus June Greenbook

1.	Stock market	+17 percent
2.	BBB bond yield	-140 basis points
3.	House prices	+8 percent
4.	Mortgage rates	-20 basis points

Total Hours*

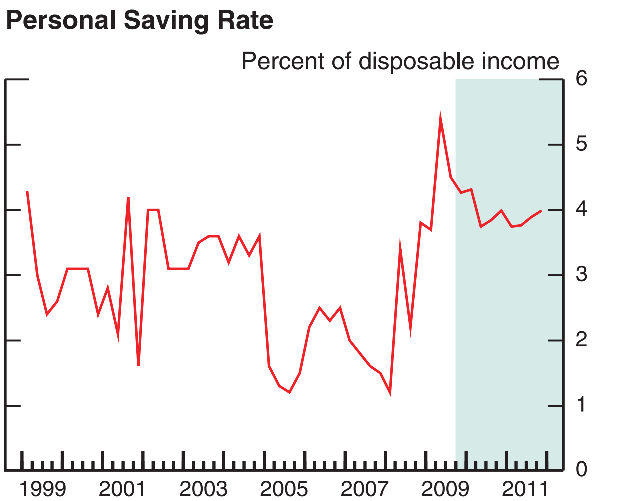


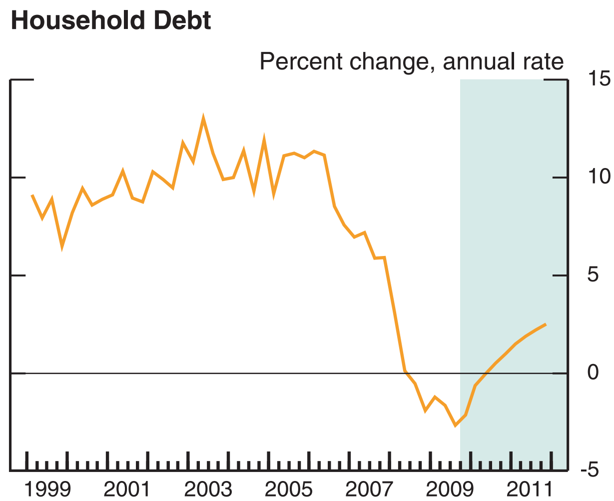
* Nonfarm business sector.

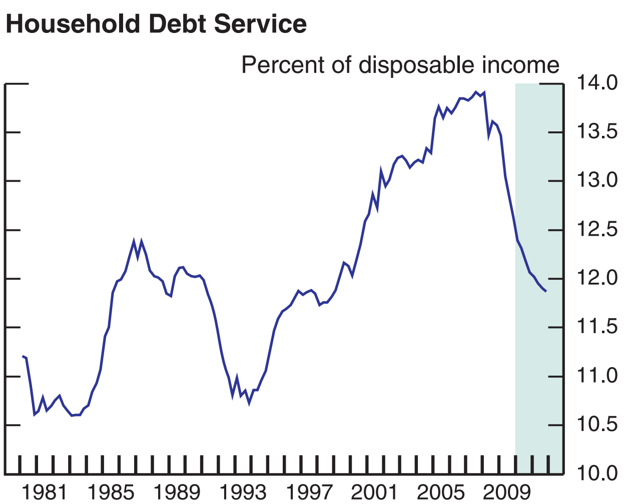
Class II FOMC - Restricted (FR)

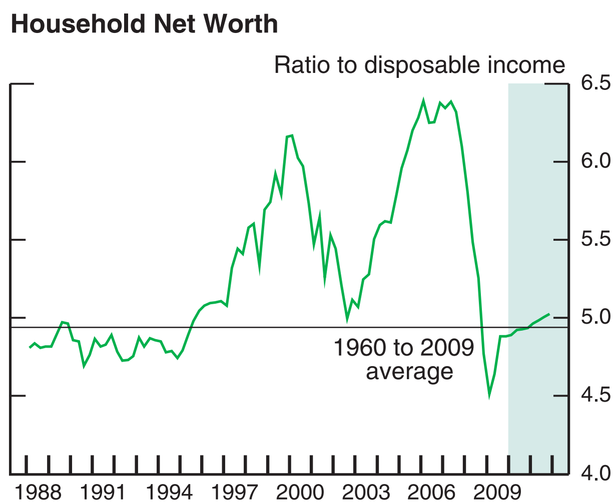
Exhibit 3

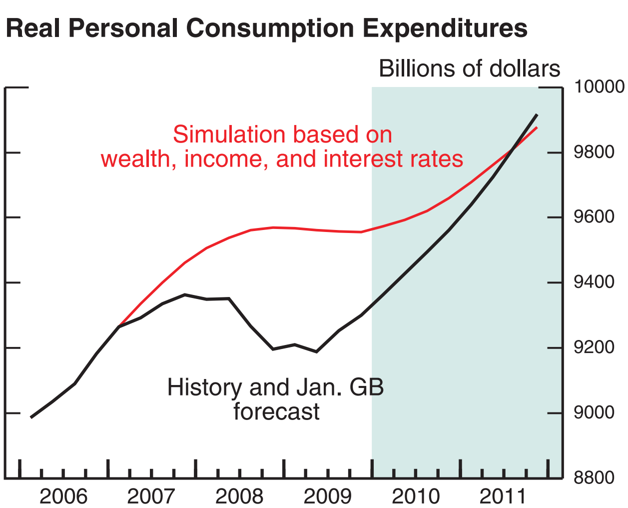
Household Finance and Consumer Spending











Discussion

- Consumer spending dropped far below the simulation in 2008 and early 2009.
- Sharp tightening in credit and heightened anxiety about depth of recession and job loss played important roles in "shortfall."
- We expect spending to continue to accelerate this year and in 2011.

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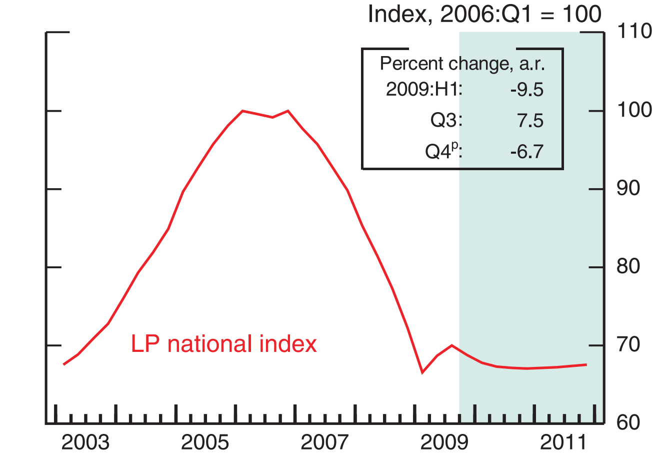
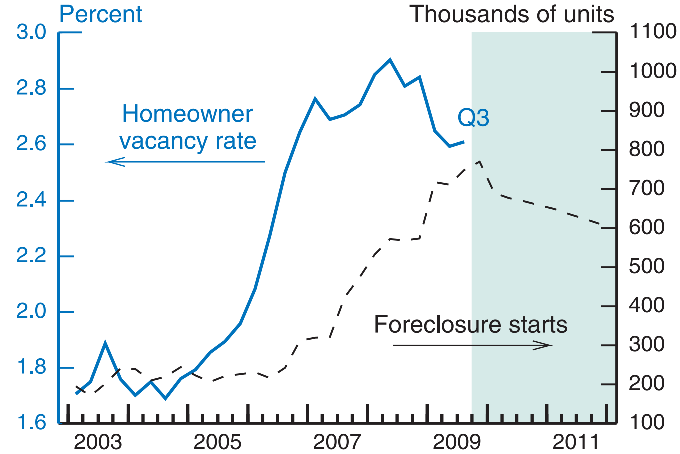
Exhibit 4

Real Estate Markets and Construction Activity

Existing Home Prices



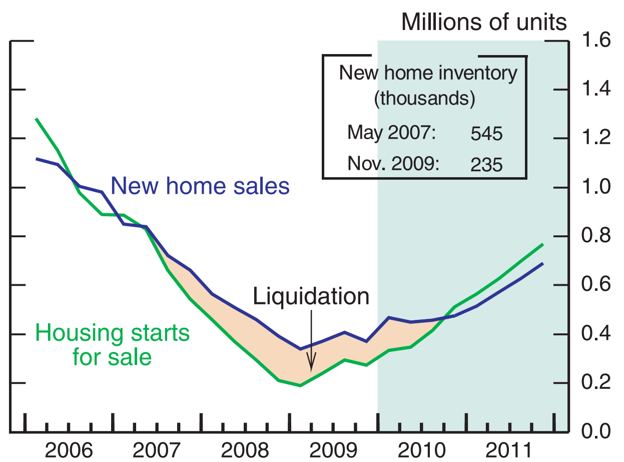
Foreclosure Starts and Vacant Homes



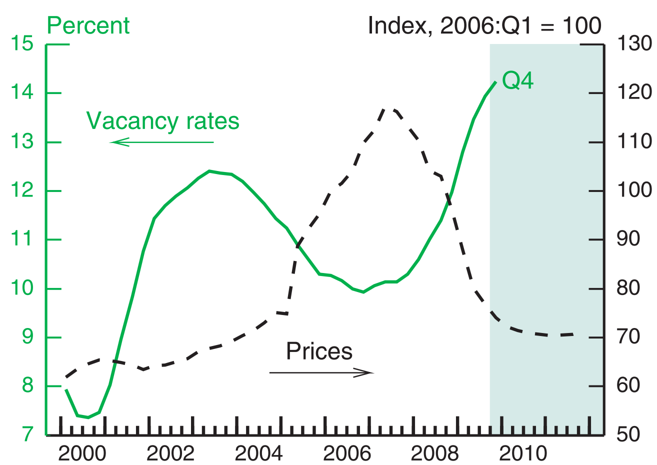
Housing Demand

- Existing home sales rose noticeably over the second half of last year.
- Demand lifted by low mortgage rates and low home prices.
- A growing sense that prices may have bottomed out and a gradual increase in employment should contribute to rising demand.

Single-family Construction



Commercial Property*



* Average of series for office, industrial, and retail properties.

Senior Loan Officer Opinion Survey

- Respondents expecting performance of commercial mortgages to deteriorate further this year.
- Banks have continued to tighten CRE lending standards.
- Banks reported a further weakening in demand for CRE loans.

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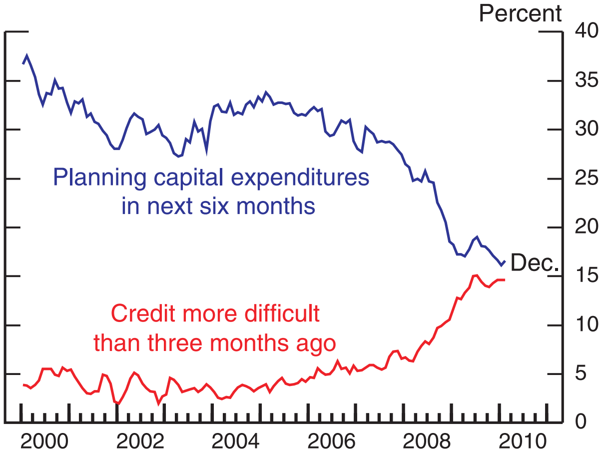
Exhibit 5

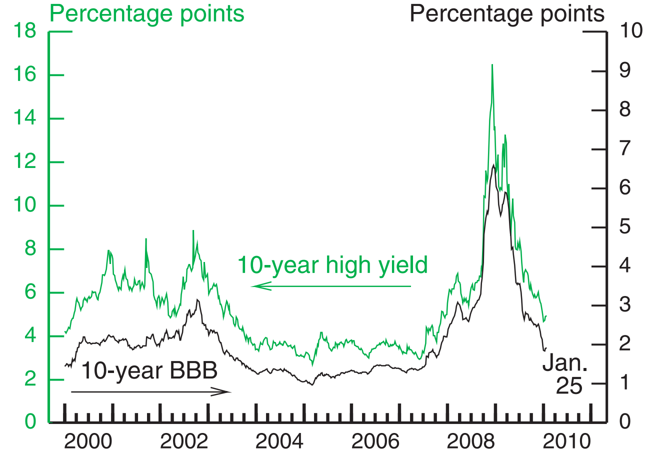
Business Finance and Investment

National Federation of Independent Business



Note: Three-month moving average.

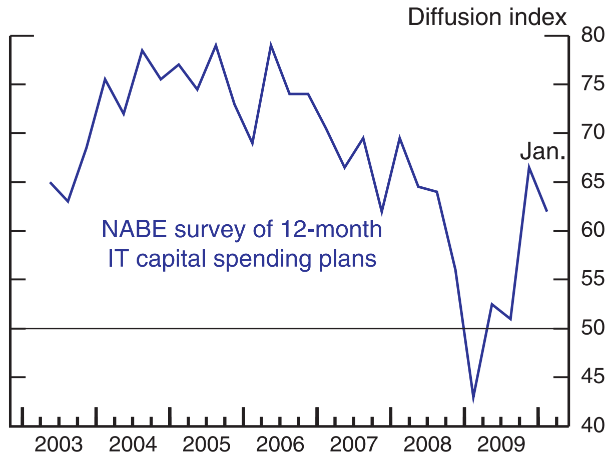
Corporate Bond Spreads



Reserve Bank Survey of Capital Spending Plans

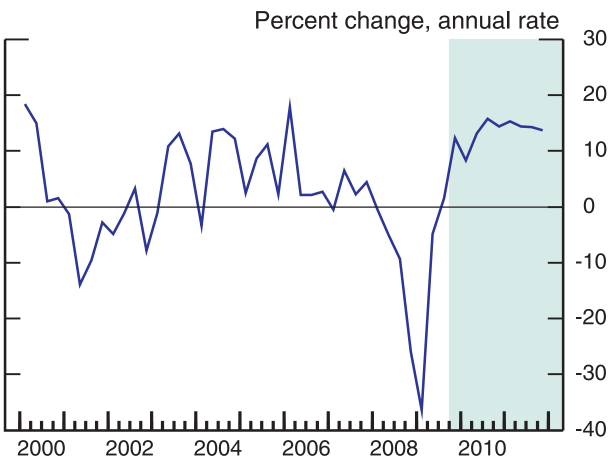
- Almost 40 percent reported plans to increase equipment spending.
- Just under 20 percent reported plans to decrease spending.
- Most commonly cited factors by firms planning an increase:
  - Expectation of strong sales growth
  - Need to replace IT equipment

Indicator of High-tech Spending



Note: Based on survey question on firms' plans to increase or decrease their spending on high-tech equipment in the next 12 months.

Equipment and Software Investment



Real Stock of Equipment and Software

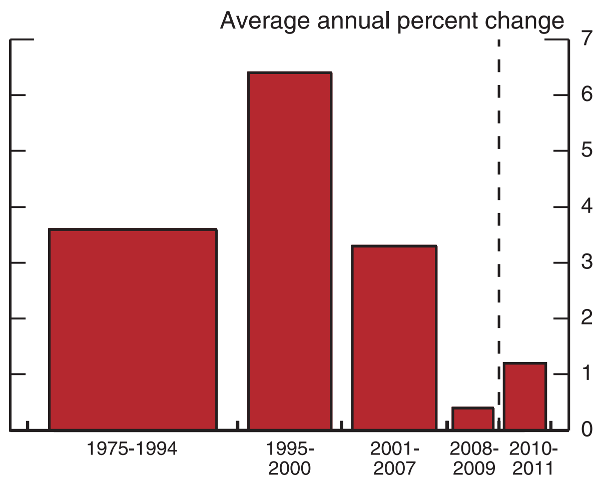


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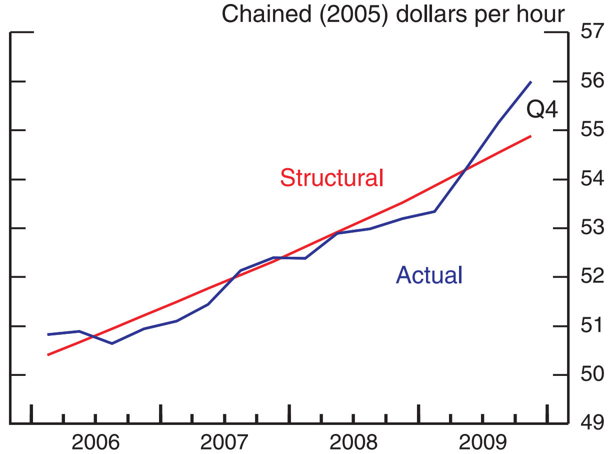
Exhibit 6

A Closer Look at Current Labor Market Conditions

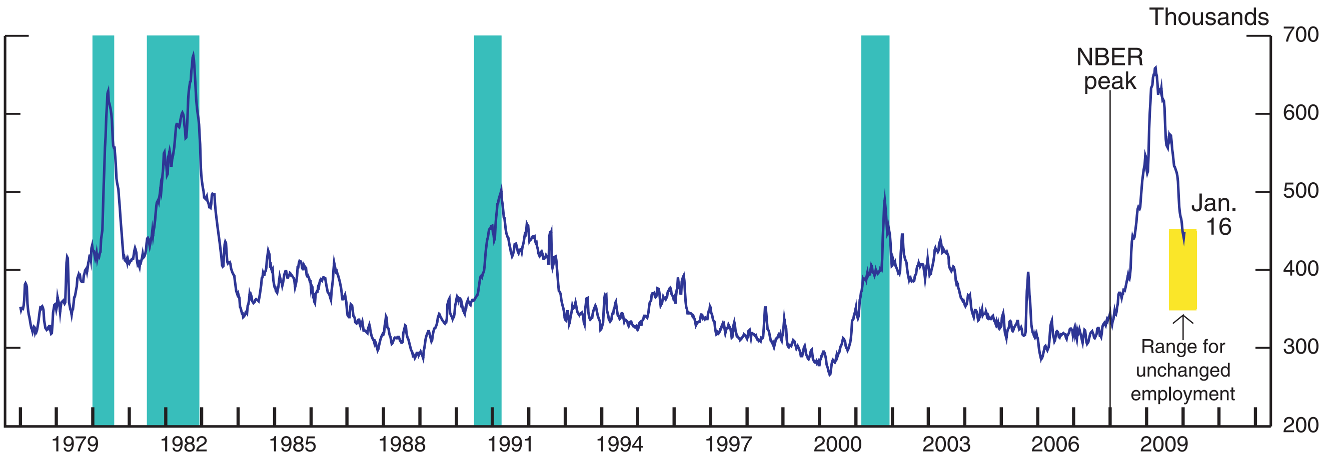
Private Payrolls

	Average monthly change (thousands)
2009:Q1	-695
Q2	-425
Q3	-171
Q4	-76
2010:Q1	42
Q2	263

Nonfarm Business Productivity

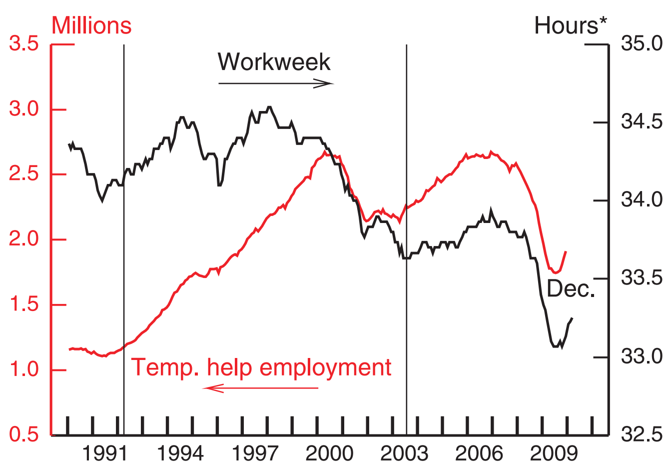


Initial Unemployment Claims



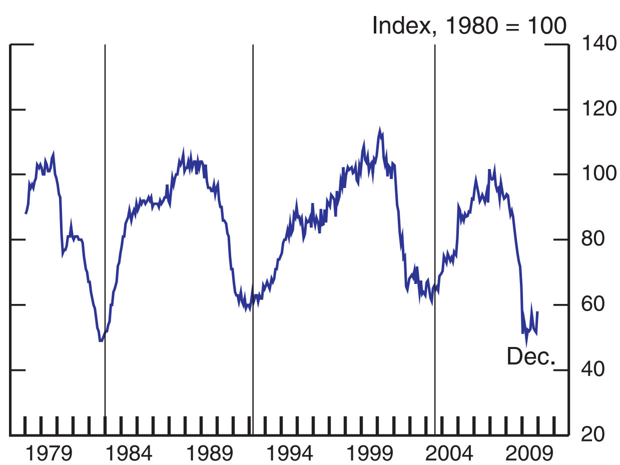
Note: Vertical shading represents NBER recession dates. Four-week moving average.

Workweek and Temporary Employment



Note: Vertical lines show troughs in private employment.
* Three-month moving average.

Help Wanted



Note: Vertical lines show troughs in private employment.
Three-month moving average.

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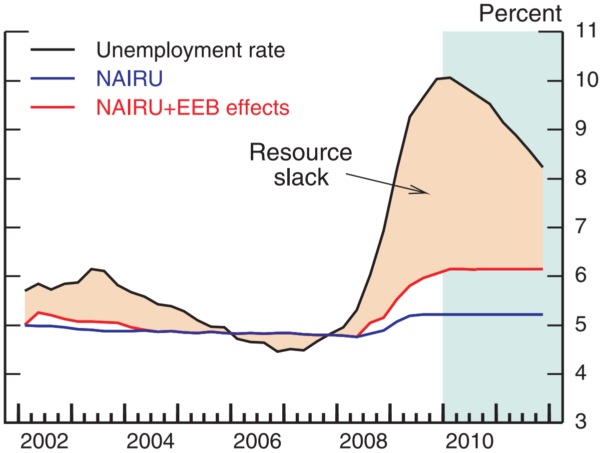
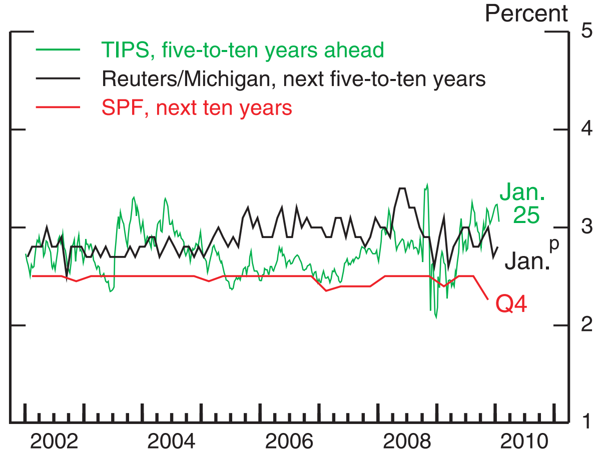
Exhibit 7

Inflation

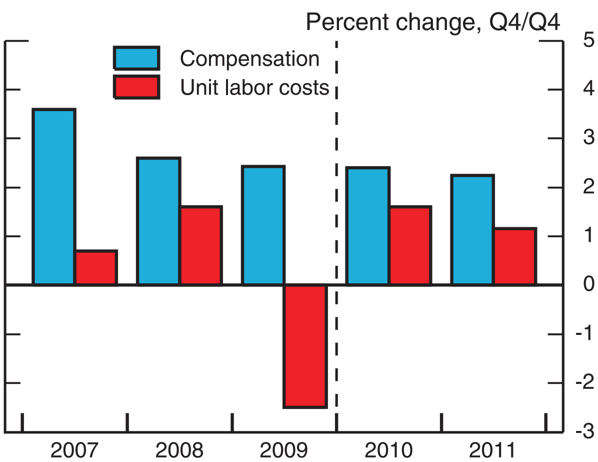
Unemployment and NAIRU



Long-term Inflation Expectations

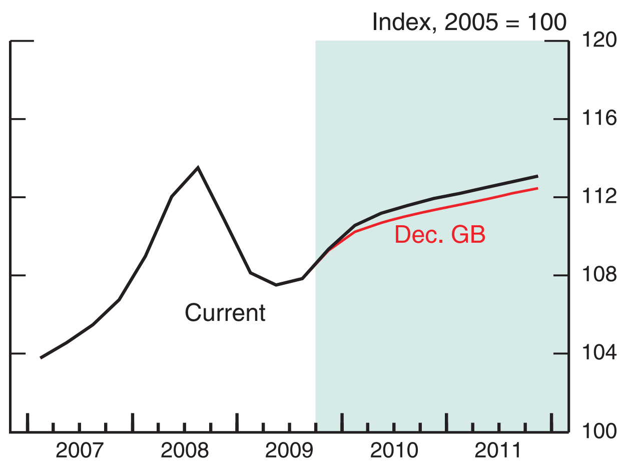


Compensation per Hour and Unit Labor Costs*

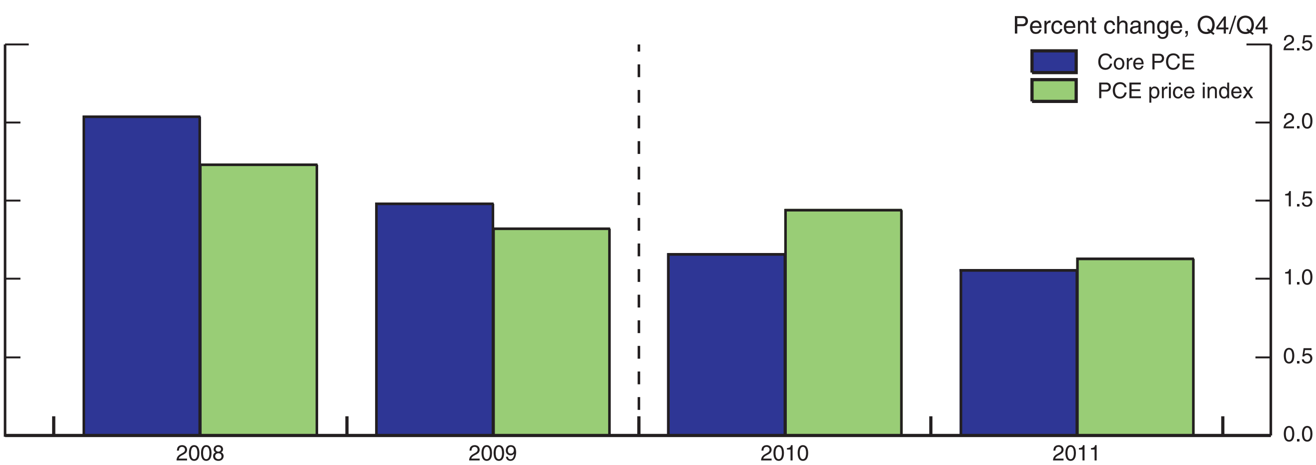


* Nonfarm business sector.

Core Nonfuel Import Prices



PCE Price Projections



Class II FOMC - Restricted (FR)

Exhibit 8

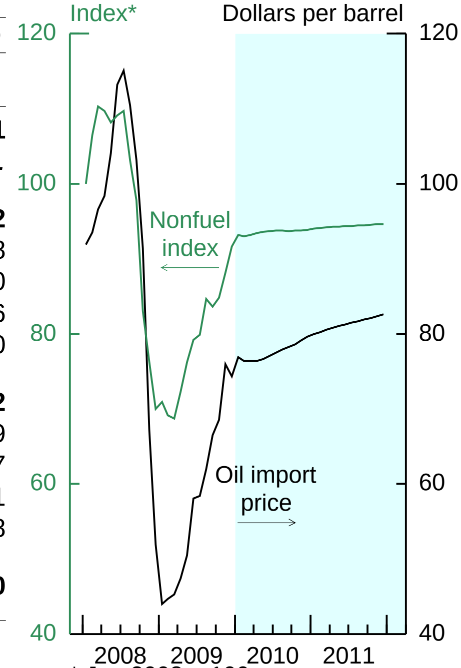
Foreign Growth Outlook

Real GDP and Consumer Prices* Percent change, annual rate

	2009 Q3	2009 Q4e	2010p	2011p
1. Total Foreign GDP	**4.4**	**2.7**	**3.6**	**4.1**
June Greenbook	*1.5*	*1.8*	*3.1*	*n.a.*
2. Emerging Market Economies	**9.2**	**3.6**	**4.9**	**5.2**
3. China	10.8	10.1	8.6	8.8
4. Other Emerging Asia	10.0	1.8	5.0	5.0
5. Mexico	12.2	2.5	3.8	4.6
6. Brazil	5.1	6.0	4.9	4.0
7. Advanced Foreign Economies	**0.8**	**2.0**	**2.6**	**3.2**
8. Japan	1.3	1.8	2.0	1.9
9. Euro Area	1.7	1.0	2.1	2.7
10. United Kingdom	-0.6	0.4	2.5	3.1
11. Canada	0.4	3.2	3.2	3.8
12. Total Foreign CPI	**1.5**	**3.2**	**2.2**	**2.0**

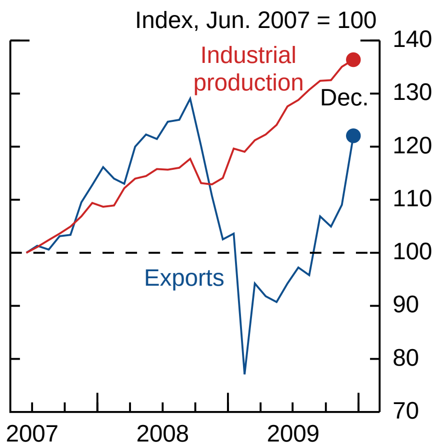
* GDP aggregates weighted by U.S. goods exports; CPI by U.S. non-oil goods imports. Updated since January Greenbook.

Commodity Prices



* Jan 2008 = 100.

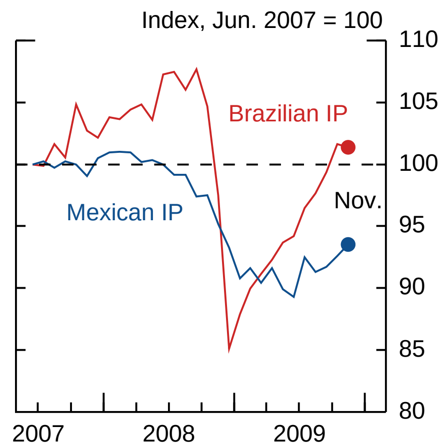
China



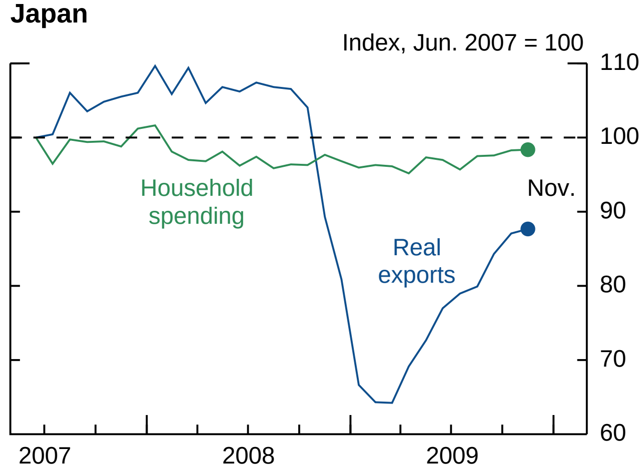
Emerging Asia ex. China*

* Also excludes Hong Kong and Philippines due to data availability.

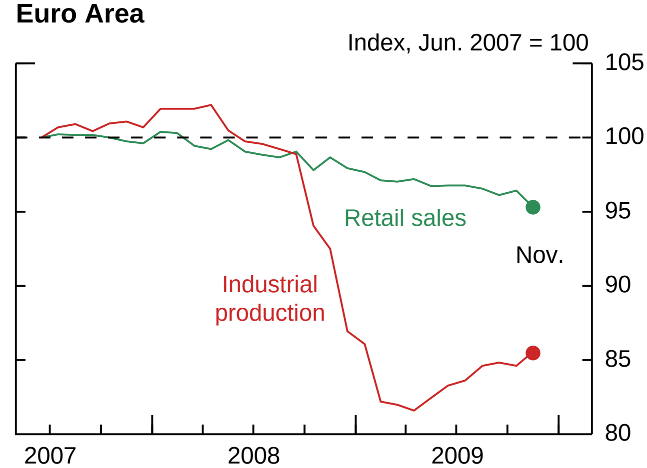
Latin America



Japan



Euro Area

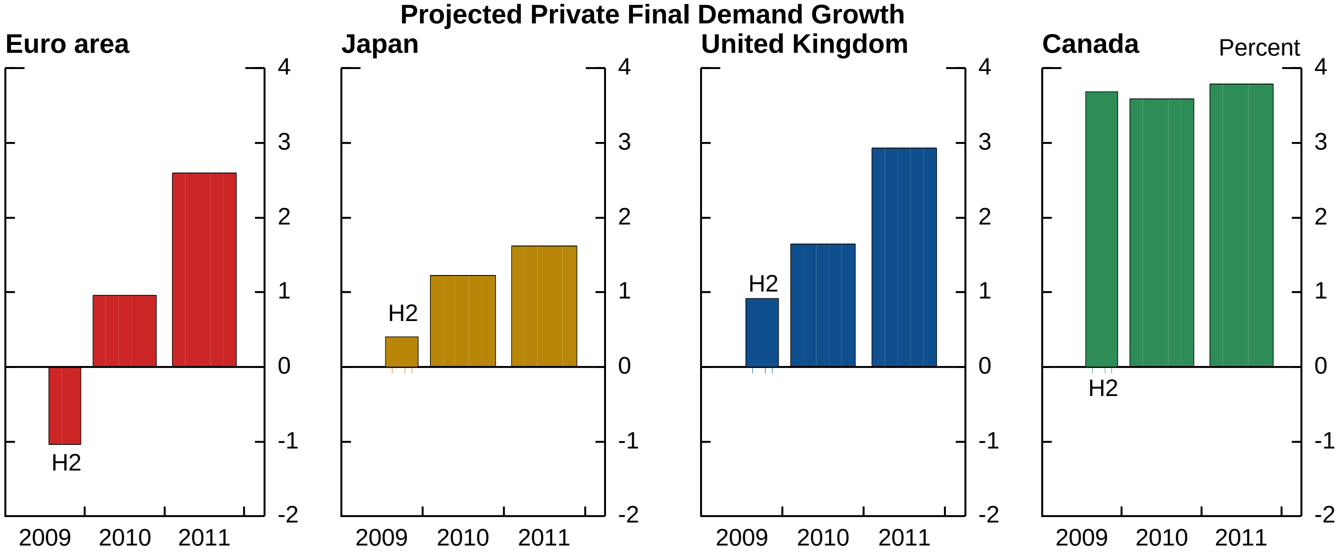


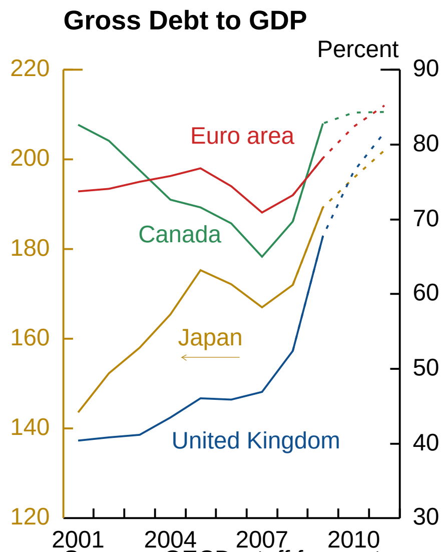
Class II FOMC - Restricted (FR)

Exhibit 9

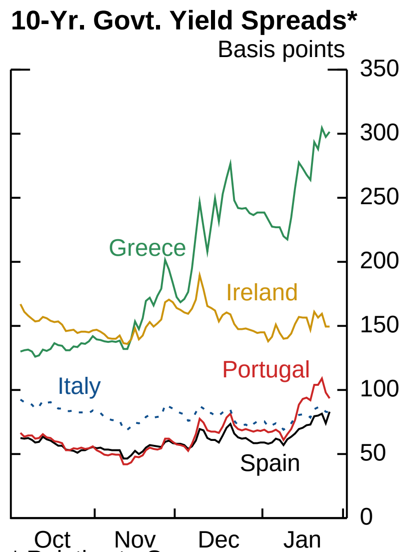
Advanced Foreign Economies (AFEs)

Projected Private Final Demand Growth

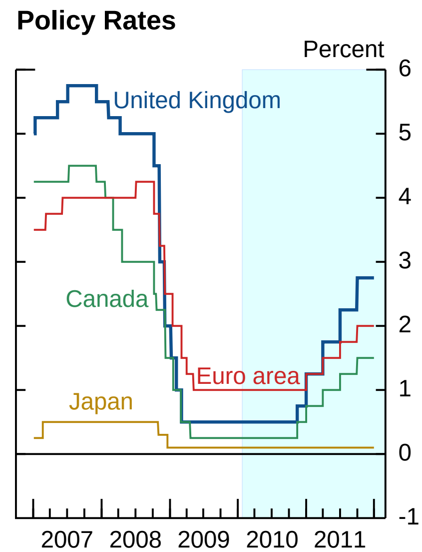


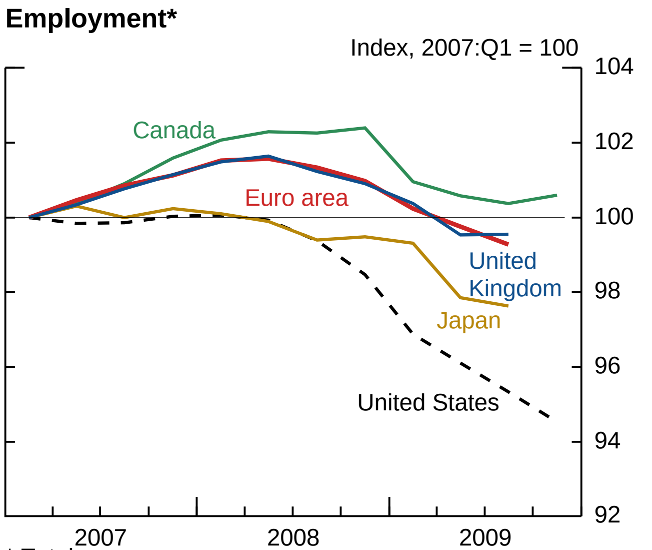


Sources: OECD, staff forecast.

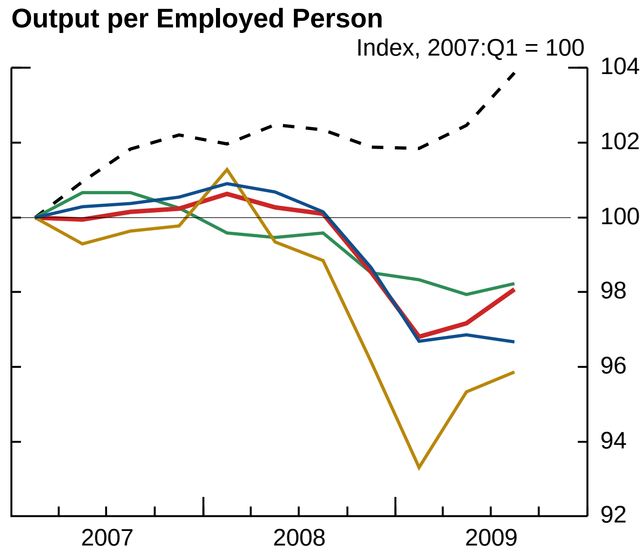


* Relative to Germany.





* Total economy.

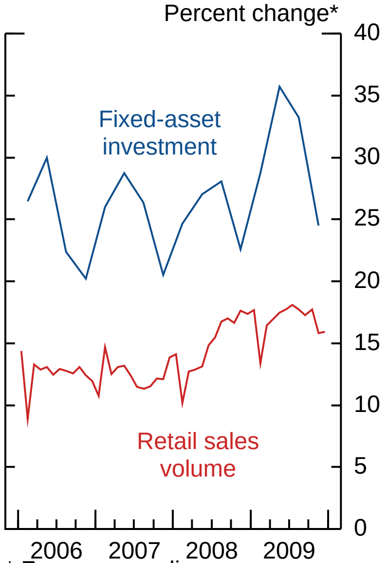


Class II FOMC - Restricted (FR)

Exhibit 10

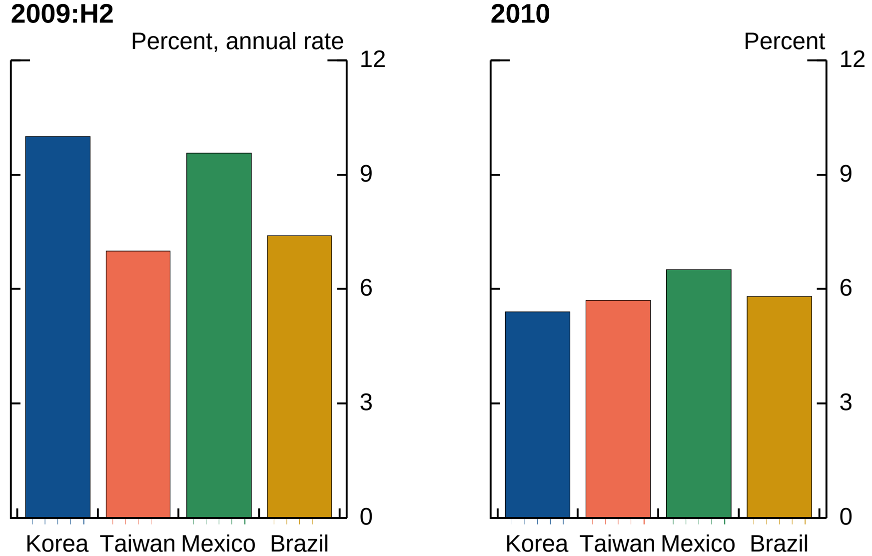
Emerging Market Economies (EMEs)

Chinese Domestic Demand

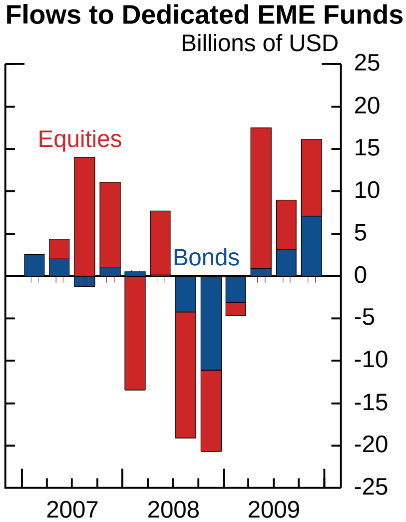


* From year earlier.

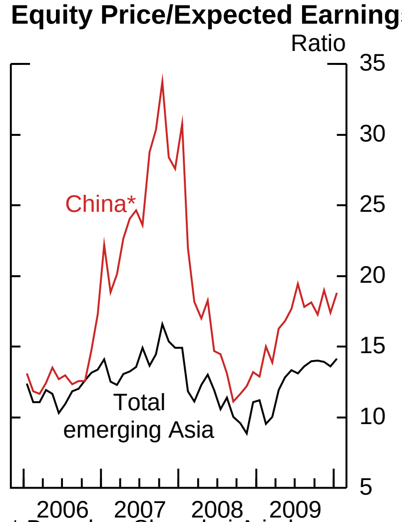
Projected Total Domestic Demand Growth



Flows to Dedicated EME Funds

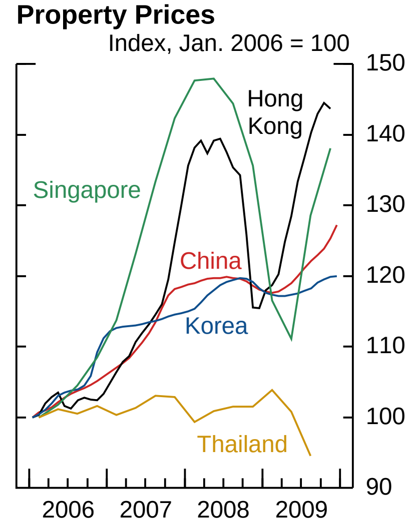


Equity Price/Expected Earnings

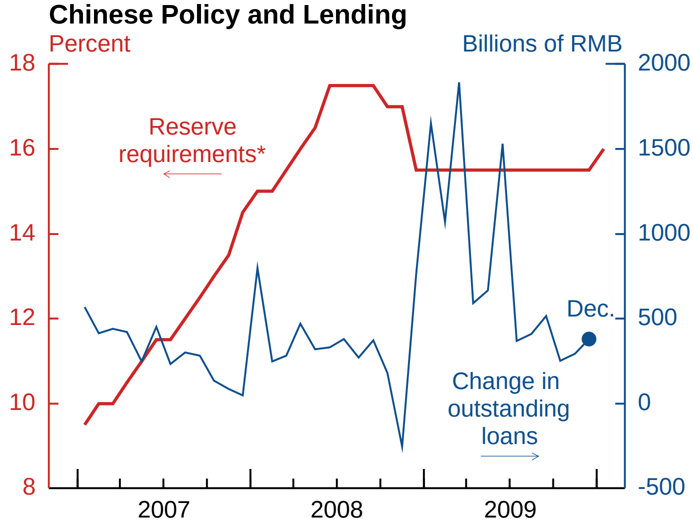


* Based on Shanghai A index.

Property Prices

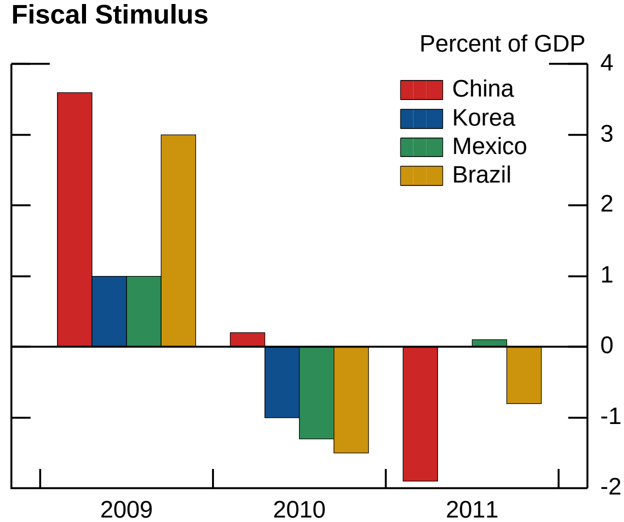


Chinese Policy and Lending



* For large banks.

Fiscal Stimulus

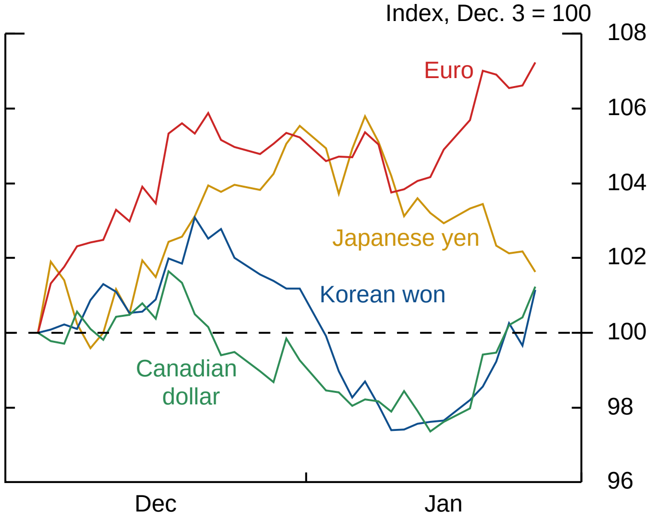


Class II FOMC - Restricted (FR)

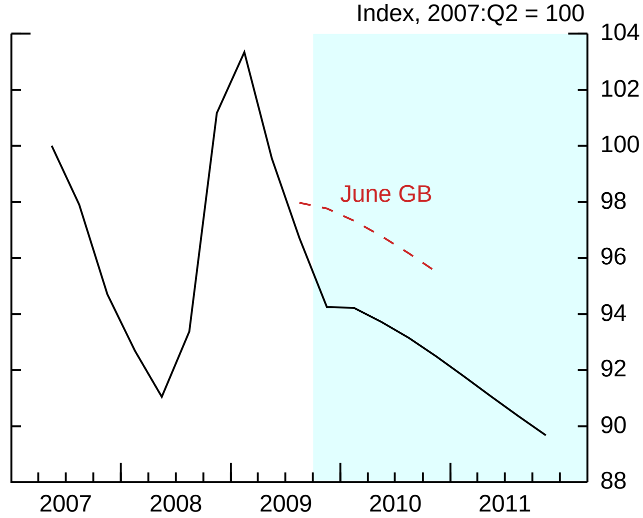
Exhibit 11 (Last)

External Sector

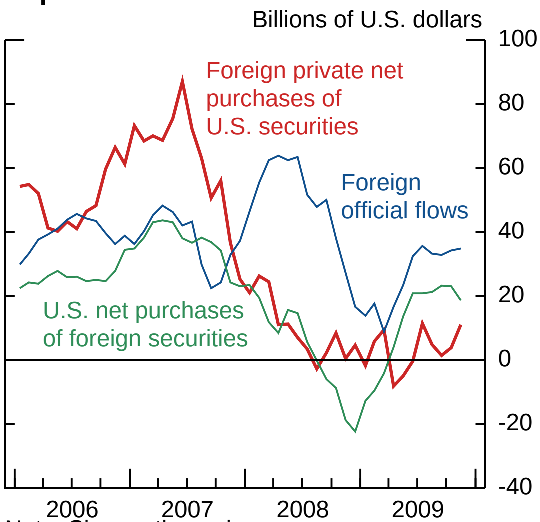
Selected Exchange Rates



Broad Real Dollar



Capital Flows

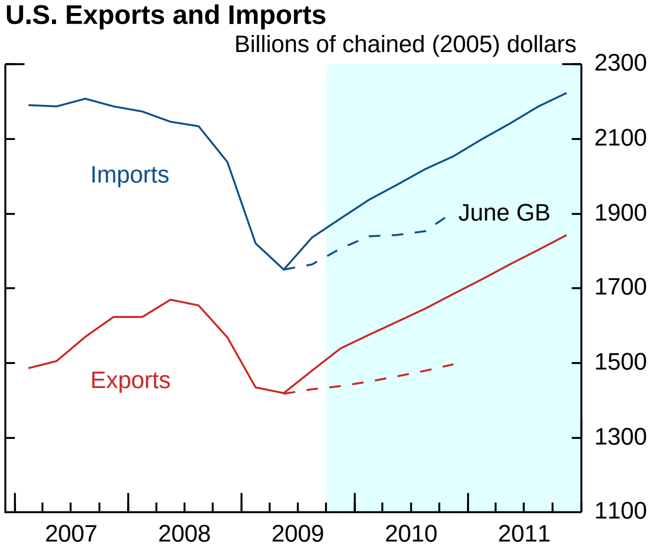


Note: Six-month moving average.

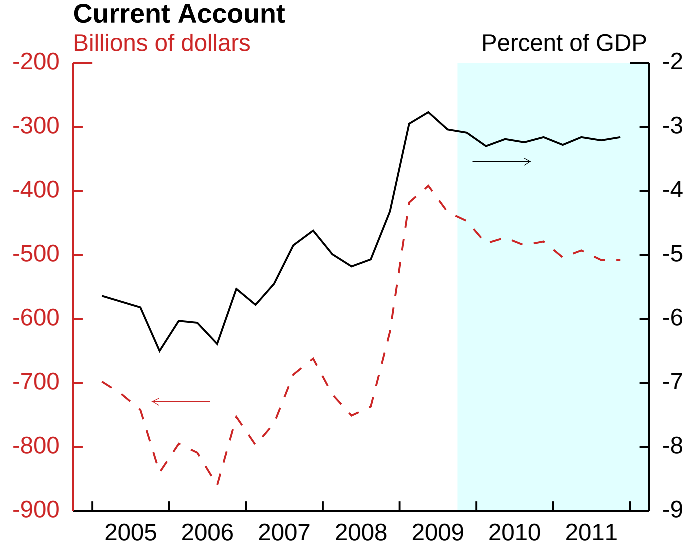
Trade in Real Goods and Services

	2009 Q3	2009 Q4[e]	2010[p]	2011[p]
Growth Rates (percent, a.r.)				
1. Exports	17.8	17.3	9.5	9.3
2. Imports	21.3	11.8	8.8	8.3
Contribution to Real GDP Growth (percentage points, a.r.)				
3. Net Exports	-0.8	0.2	-0.2	-0.1

U.S. Exports and Imports



Current Account



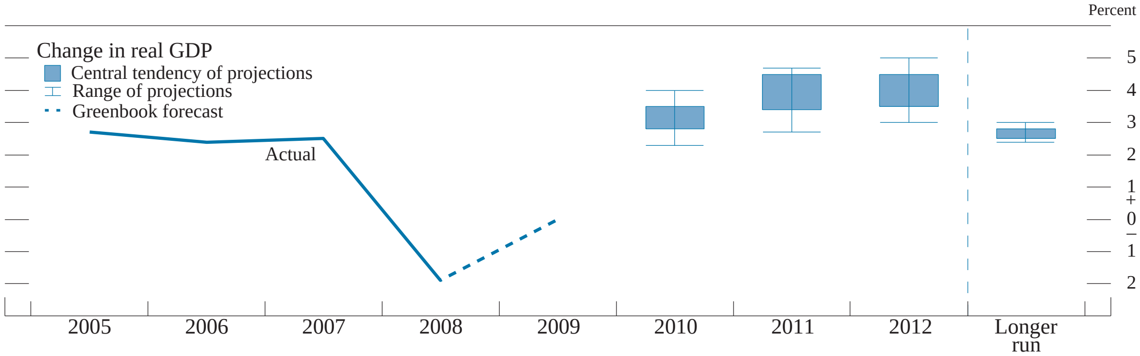
Appendix 4: Materials used by Mr. Madigan

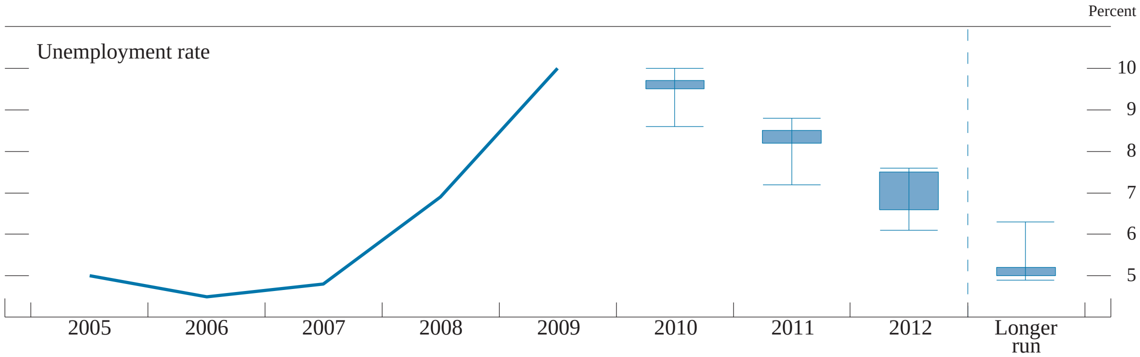
Class I FOMC – Restricted Controlled (FR)

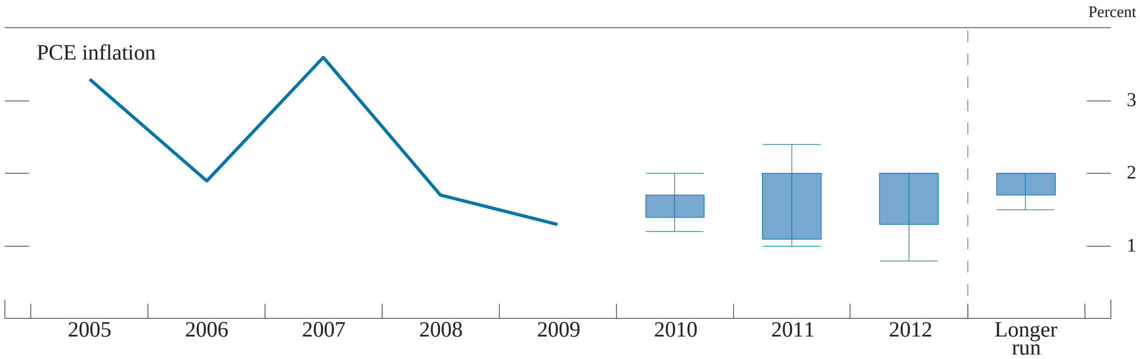
Material for Briefing on FOMC Participants' Economic Projections

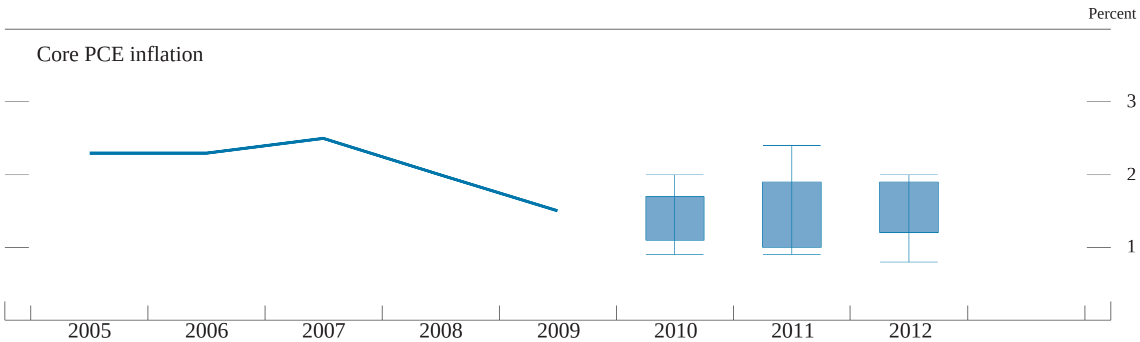
Brian Madigan
January 26-27, 2010

Exhibit 1. Central tendencies and ranges of economic projections, 2010–12 and over the longer run









Note: Definitions of variables are in the notes to table 1. The data for the actual values of the variables are annual.

Exhibit 2: Economic Projections for 2010-2012 and Longer Run

Real GDP Growth

	2010	2011	2012	Longer run
Central Tendency	2.8 to 3.5	3.4 to 4.5	3.5 to 4.5	2.5 to 2.8
November projections	*2.5 to 3.5*	*3.4 to 4.5*	*3.5 to 4.8*	*2.5 to 2.8*
Range	2.3 to 4.0	2.7 to 4.7	3.0 to 5.0	2.4 to 3.0
November projections	*2.0 to 4.0*	*2.5 to 4.6*	*2.8 to 5.0*	*2.4 to 3.0*
Memo: Greenbook	3.6	4.7	4.5	2.5
November Greenbook	*3.4*	*4.4*	*5.0*	*2.5*

Unemployment Rate

	2010	2011	2012	Longer run
Central Tendency	9.5 to 9.7	8.2 to 8.5	6.6 to 7.5	5.0 to 5.2
November projections	*9.3 to 9.7*	*8.2 to 8.6*	*6.8 to 7.5*	*5.0 to 5.2*
Range	8.6 to 10.0	7.2 to 8.8	6.1 to 7.6	4.9 to 6.3
November projections	*8.6 to 10.2*	*7.2 to 8.7*	*6.1 to 7.6*	*4.8 to 6.3*
Memo: Greenbook	9.5	8.2	6.1	5.0
November Greenbook	*9.5*	*8.2*	*6.1*	*4.8*

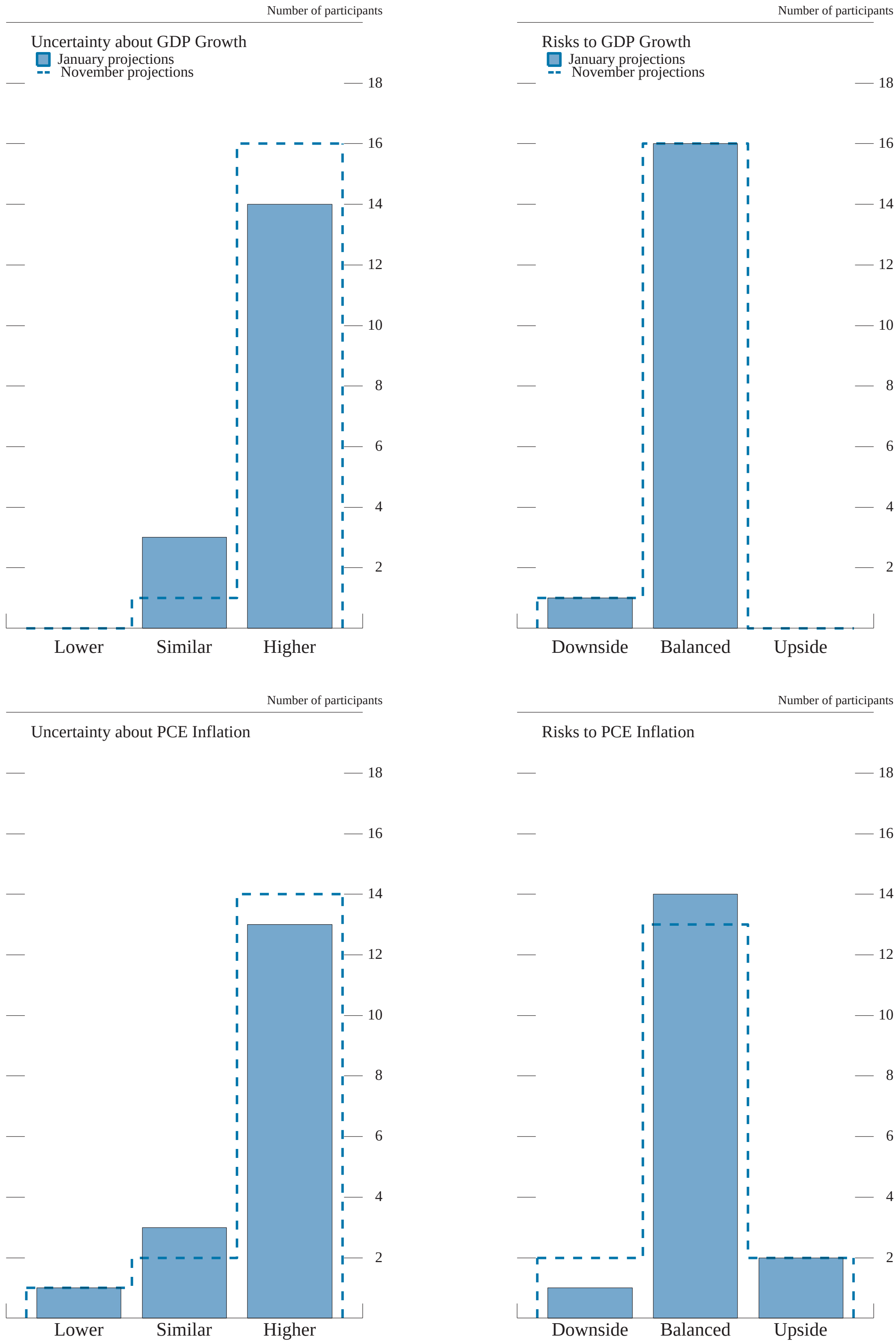
PCE Inflation

	2010	2011	2012	Longer run
Central Tendency	1.4 to 1.7	1.1 to 2.0	1.3 to 2.0	1.7 to 2.0
November projections	*1.3 to 1.6*	*1.0 to 1.9*	*1.2 to 1.9*	*1.7 to 2.0*
Range	1.2 to 2.0	1.0 to 2.4	0.8 to 2.0	1.5 to 2.0
November projections	*1.1 to 2.0*	*0.6 to 2.4*	*0.2 to 2.3*	*1.5 to 2.0*
Memo: Greenbook	1.4	1.1	1.3	2.0
November Greenbook	*1.4*	*1.0*	*1.2*	*2.0*

Core PCE Inflation

	2010	2011	2012
Central Tendency	1.1 to 1.7	1.0 to 1.9	1.2 to 1.9
November projections	*1.0 to 1.5*	*1.0 to 1.6*	*1.0 to 1.7*
Range	0.9 to 2.0	0.9 to 2.4	0.8 to 2.0
November projections	*0.9 to 2.0*	*0.5 to 2.4*	*0.2 to 2.3*
Memo: Greenbook	1.2	1.1	1.2
November Greenbook	*1.1*	*1.0*	*1.1*

Exhibit 3. Risks and Uncertainty in Economic Projections



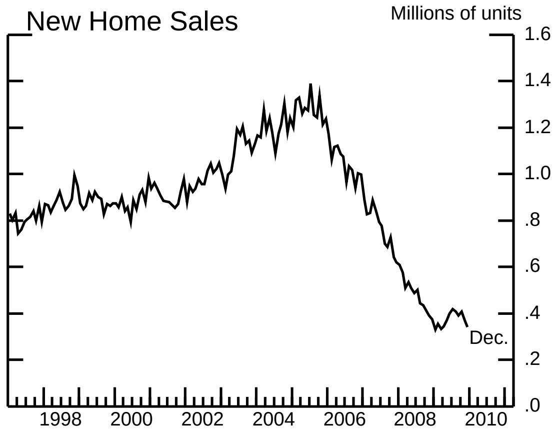
Appendix 5: Materials used by Mr. Stockton

The Market for New Single-Family Homes

	2009	2009 Q2	Q3	Q4	2009 Oct.	Nov.	Dec.
***Sales*[1]**							
Total	374	372	406	373	408	370	342
Previous			*407*		*400*	*355*	
Percent Change	-22.9	10.1	9.1	-8.1	4.3	-9.3	-7.6
By region							
Northeast	31	27	38	34	33	28	40
Midwest	54	49	60	57	56	73	43
South	202	202	208	198	224	192	178
West	87	93	101	84	95	77	81
Inventories							
New homes for sale[2]	231	280	252	231	242	235	231
Months' supply[3]	9.1	9.4	7.7	7.6	7.1	7.6	8.1
Prices							
Mean (thousands of dollars)[4]	270.4	270.0	274.9	269.1	263.1	267.3	299.1
Year-to-year percent change[5]	-7.6	-10.3	-3.8	-2.3	-4.2	-7.1	10.5
One-period percent change (annual rate for quarters, monthly rate for months)	-7.6	15.2	7.4	-8.1	-10.4	1.6	11.9
Constant-quality price index[6]							
Year-to-year percent change[5]	-4.5	-6.0	-5.9	.3	n.a.	n.a.	n.a.
One-period percent change (annual rate for quarters)	-4.5	2.3	-2.6	8.3	n.a.	n.a.	n.a.

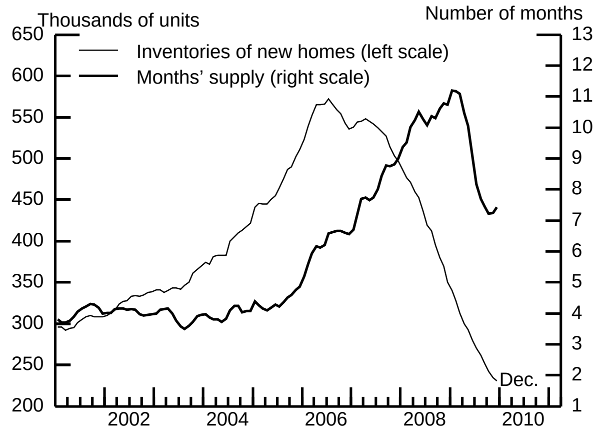
1. Thousands of units, s.a.a.r., except where noted. Percent change is from previous comparable period, not at an annual rate.
2. Thousands of units, seasonally adjusted, end of period stock.
3. At current sales rate; expressed as the ratio of s.a. inventories to s.a. sales. Quarterly and annual values are averages of monthly values.
4. Quarterly and annual values of mean prices are equal to a weighted average of monthly data; the weights are based on the response rate to the survey in each month. Seasonally adjusted by FRB staff.
5. Year-to-year percent changes are from the year-earlier comparable period.
6. Based on characteristics of new homes sold in 2005. Seasonally adjusted by FRB staff.

s.a.a.r. Seasonally adjusted annual rate. s.a. Seasonally adjusted. n.a. Not available.
Source: Census Bureau.



Source: Census Bureau.

Inventories of New Homes and Months' Supply



Note: Months' supply is calculated using the 3-month moving average of sales.
Source: Census Bureau.

Appendix 6: Materials used by Mr. English

Class I FOMC – Restricted-Controlled FR

Material for

FOMC Briefing on Monetary Policy Alternatives

Bill English
January 27, 2010

December FOMC Statement

Information received since the Federal Open Market Committee met in November suggests that economic activity has continued to pick up and that the deterioration in the labor market is abating. The housing sector has shown some signs of improvement over recent months. Household spending appears to be expanding at a moderate rate, though it remains constrained by a weak labor market, modest income growth, lower housing wealth, and tight credit. Businesses are still cutting back on fixed investment, though at a slower pace, and remain reluctant to add to payrolls; they continue to make progress in bringing inventory stocks into better alignment with sales. Financial market conditions have become more supportive of economic growth. 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 contribute to 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.

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 of 2010. 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.

In light of ongoing improvements in the functioning of financial markets, the Committee and the Board of Governors anticipate that most of the Federal Reserve's special liquidity facilities will expire on February 1, 2010, consistent with the Federal Reserve's announcement of June 25, 2009. These facilities include 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. The Federal Reserve will also be working with its central bank counterparties to close its temporary liquidity swap arrangements by February 1. The Federal Reserve expects that amounts provided under the Term Auction Facility will continue to be scaled back in early 2010. The anticipated expiration dates for the Term Asset-Backed Securities Loan Facility remain set at June 30, 2010, for loans backed by new-issue commercial mortgage-backed securities and March 31, 2010, 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.

January FOMC Statement—Alternative A

1. Information received since the Federal Open Market Committee met in **December** suggests that economic activity has continued to pick up 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 firms** remain reluctant to add to payrolls. **Recent data indicate that** housing **activity remains sluggish and the level of foreclosures continues to be elevated. In light of the weakness in labor markets and prospects for a subpar economic recovery, the Committee judges that further monetary stimulus is warranted.**

2. **Energy prices have risen in recent months, but core inflation has remained low.** 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. 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 expand its purchases** of agency mortgage-backed securities **to a total of $1.5 trillion, up from the previously announced amount of** $1.25 trillion; the Committee anticipates that these transactions will be executed by the end of the **third** quarter. The Federal Reserve is **also** in the process of purchasing about $175 billion of agency debt, **and** the Committee anticipates that **those** transactions will be executed by the end of the first quarter. 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 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. In light of improve**d** 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 bank**s will expire on** February 1. **The** amounts provided under the Term Auction Facility will continue to be scaled back, **with $50 billion in 28-day credit to be offered at the next auction on February 8; the Federal Reserve expects to offer $25 billion in 28-day credit on March 8 and will consider whether to conduct further auctions beyond that date**. 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.

January FOMC Statement—Alternative B

1. 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.

2. **Energy prices have risen in recent months. However,** 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.

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. 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 [*or* **holdings**] of securities in light of the evolving economic outlook and conditions in financial markets.

4. In light of improve**d** 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 bank**s will expire on** February 1. **The** amounts provided under the Term Auction Facility will continue to be scaled back, **with $50 billion in 28-day credit to be offered at the next auction on February 8; the Federal Reserve expects to offer $25 billion in 28-day credit on March 8 and will consider whether to conduct further auctions beyond that date**. 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.

January FOMC Statement—Alternative C

1. Information received since the Federal Open Market Committee met in **December** suggests that economic activity **is increasing at a solid rate** and that the labor market **is stabilizing**. Financial market conditions have **continued to** become more supportive of economic growth. Household spending **is** expanding at a moderate rate. **Business spending on equipment and software appears to be picking up, and firms have brought** inventory stocks into better alignment with sales. **With a sustainable** economic **recovery now under way,** the Committee anticipates a gradual return to higher levels of resource utilization.

2. **Inflation has been somewhat elevated recently, reflecting a pickup in energy prices, but** longer-term inflation expectations **have remained** stable. The Committee expects that, **with appropriate monetary policy adjustments,** inflation will **be at levels consistent with price stability**.

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 low levels of the federal funds rate for **some time**. 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 anticipates that these transactions will be executed by the end of the first quarter. The Committee will continue to evaluate the **size and composition** of its securities **holdings** in light of the evolving economic outlook and conditions in financial markets.

4. In light of improve**d** 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 bank**s will expire on** February 1. **The** amounts provided under the Term Auction Facility will continue to be scaled back, **with $50 billion in 28-day credit to be offered at the next auction on February 8; the Federal Reserve expects to offer $25 billion in 28-day credit on March 8 and will consider whether to conduct further auctions beyond that date**. 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.

Table 1: Overview of Alternative Language for the January 26-27, 2010 FOMC Announcement

<table>
<tr><th rowspan="2"></th><th rowspan="2">December FOMC</th><th colspan="3">January Alternatives</th></tr>
<tr><th>A</th><th>B</th><th>C</th></tr>
<tr><td colspan="5">Economic Activity</td></tr>
<tr><td>Recent Developments</td><td>“has continued to pick up”</td><td>“has continued to pick up”</td><td>“has continued to strengthen”</td><td>“is increasing at a solid rate”</td></tr>
<tr><td>Labor Markets</td><td>“the deterioration... is abating”</td><td colspan="2">“the deterioration... is abating”</td><td>“the labor market is stabilizing”</td></tr>
<tr><td>Financial Markets</td><td>“conditions have become more supportive”</td><td>---</td><td>“conditions remain supportive”</td><td>“conditions have continued to become more supportive”</td></tr>
<tr><td>Other Factors</td><td>fiscal and monetary stimulus, market forces</td><td>“housing activity remains sluggish”</td><td>“bank lending continues to contract”</td><td>---</td></tr>
<tr><td>Outlook</td><td>“likely to remain weak for a time”</td><td>further monetary stimulus warranted by prospects for subpar recovery</td><td>pace of recovery “likely to be moderate”</td><td>sustainable recovery “now under way”</td></tr>
<tr><td colspan="5">Inflation</td></tr>
<tr><td>Recent Developments</td><td>---</td><td>energy prices have risen but core inflation has remained low</td><td>energy prices have risen</td><td>inflation somewhat elevated by pickup in energy prices</td></tr>
<tr><td>Key Factors</td><td>substantial resource slack, stable expectations</td><td colspan="2">substantial resource slack, stable expectations</td><td>appropriate monetary policy adjustments, stable expectations</td></tr>
<tr><td>Outlook</td><td>“will remain subdued for some time”</td><td colspan="2">“likely to be subdued for some time”</td><td>“will be at levels consistent with price stability”</td></tr>
<tr><td colspan="5">Forward Guidance on Funds Rate Path</td></tr>
<tr><td></td><td>“exceptionally low... for an extended period”</td><td colspan="2">“exceptionally low...for an extended period”</td><td>“low...for some time”</td></tr>
<tr><td colspan="5">Agency MBS Purchases</td></tr>
<tr><td>Amount</td><td>$1.25 trillion</td><td>$1.5 trillion</td><td colspan="2">$1.25 trillion</td></tr>
<tr><td>Timing</td><td>by the end of the first quarter</td><td>by the end of the third quarter</td><td colspan="2">by the end of the first quarter</td></tr>
<tr><td colspan="5">Evaluation of Balance Sheet Adjustments</td></tr>
<tr><td></td><td>“the timing and overall amounts of its purchases of securities”</td><td>“the timing and overall amounts of its purchases of securities”</td><td>“its purchases [or holdings] of securities”</td><td>“the size and composition of its securities holdings”</td></tr>
</table>

DIRECTIVES

DECEMBER 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 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.

JANUARY 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 the first quarter and to execute purchases of about $1.5 trillion of agency MBS by the end of the third 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 third 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.

JANUARY 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 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.