FEDERAL RESERVE BANK of ATLANTA

March 2, 2011

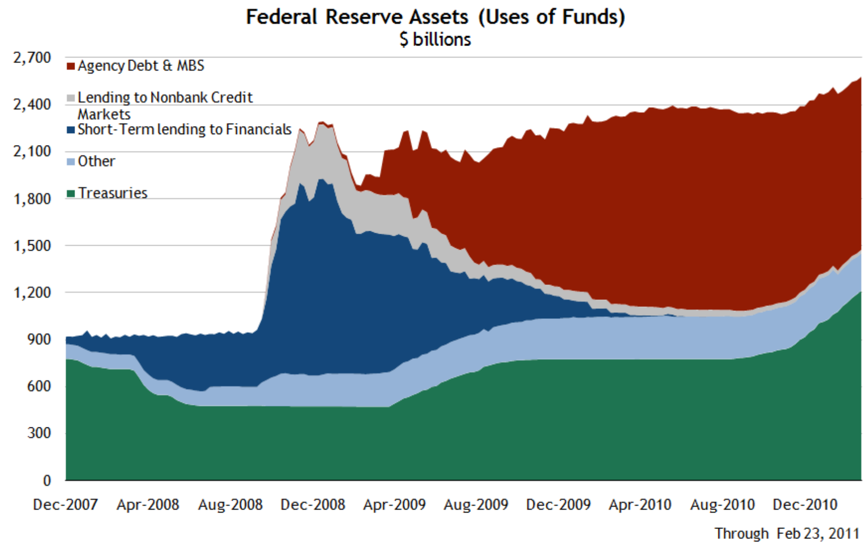
Financial Highlights

Federal Reserve

Summary

The balance sheet increased by $23.9 billion for the week ended February 23.

Since November 10, the balance sheet has increased $221 billion.



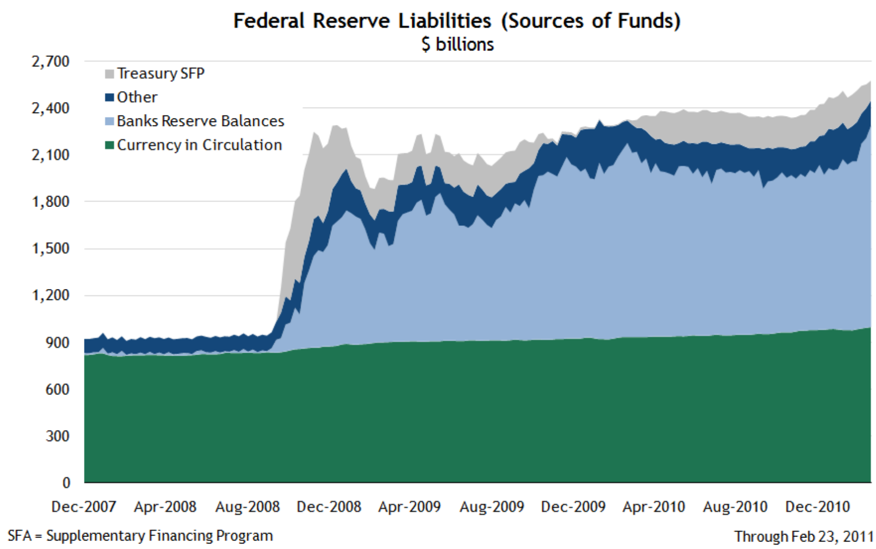
Source: Federal Reserve Board

- Treasuries increased by $23 billion while agency debt and MBS declined $0.5 billion. Since November 10, Treasury securities have grown by $360 billion while agency debt and MBS have shrunk by $98 billion.
- According to the New York Fed's tentative outright Treasury operation schedule, the desk plans to purchase approximately $97 billion between mid-February and mid-March.
- Growth in the balance sheet will fluctuate from week to week as a result of the volatility of MBS prepayments.

Bank reserve balances with the Federal Reserve increased $73 billion while Treasury deposits with Federal Reserve banks (part of "Other") decreased $31.4 billion.

The Treasury Supplemental Financial account declined by $25 billion for the third consecutive week.

As of February 23, 2011, bank reserves balances are $1.3 trillion.



Source: Federal Reserve Board

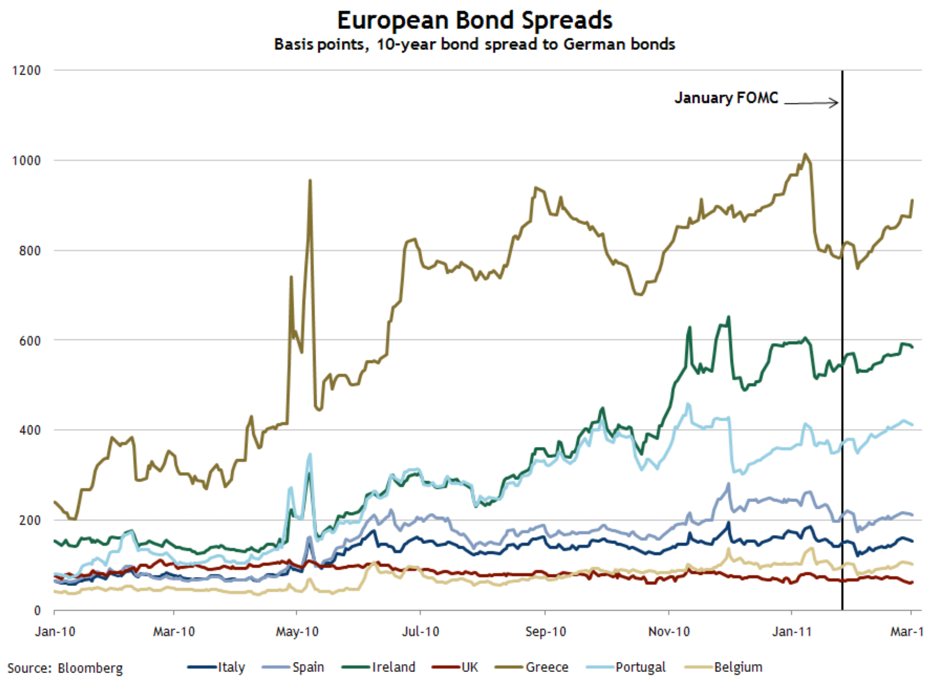
- The Treasury has announced that the Supplemental Financing Program (SFP) will be reduced to $5 billion to "provide flexibility" and delay the national debt from hitting the current ceiling of $14.29 trillion.
- The Treasury SFP was also reduced from $200 billion to $5 billion over the period September 23, 2009, to December 30, 2009, for the same reason.

Assets: Lending to nonbanks—TALF, CPFF, AMLF, and MMIFF; Short-term lending to financials—discount window, TAF, currency swaps, PDCF, and repos; Misc.—Maiden Lanes I, II, and III, credit to AIG, and other Fed assets. **Liabilities**: Other—Reverse repos, Treasury cash holdings, and deposits with Federal Reserve Banks other than reserve balances and excluding the Supplementary Financing Program.

European Debt

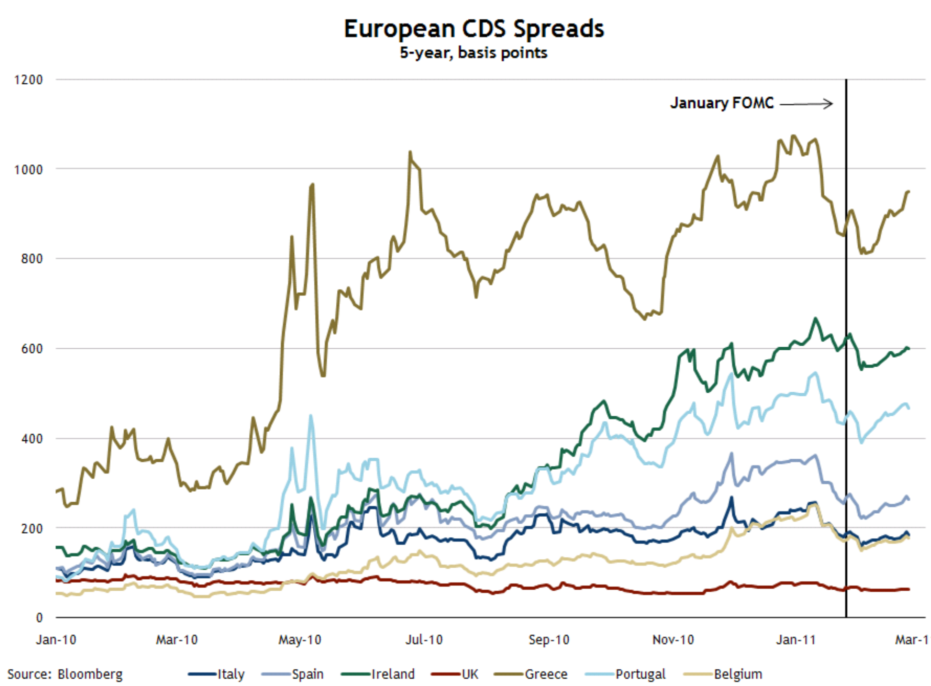
Summary

Most peripheral European bond spreads (over German bonds) continue to be elevated, particularly those of Greece, Ireland, and Portugal.



- Since the January FOMC meeting, the 10-year Greece-to-German bond spread has widened by 102 basis points (bps), through March 1. Similarly, the spread for Ireland is 37 bps higher; it is 39 bps wider for Portugal but has actually declined somewhat for Spain.

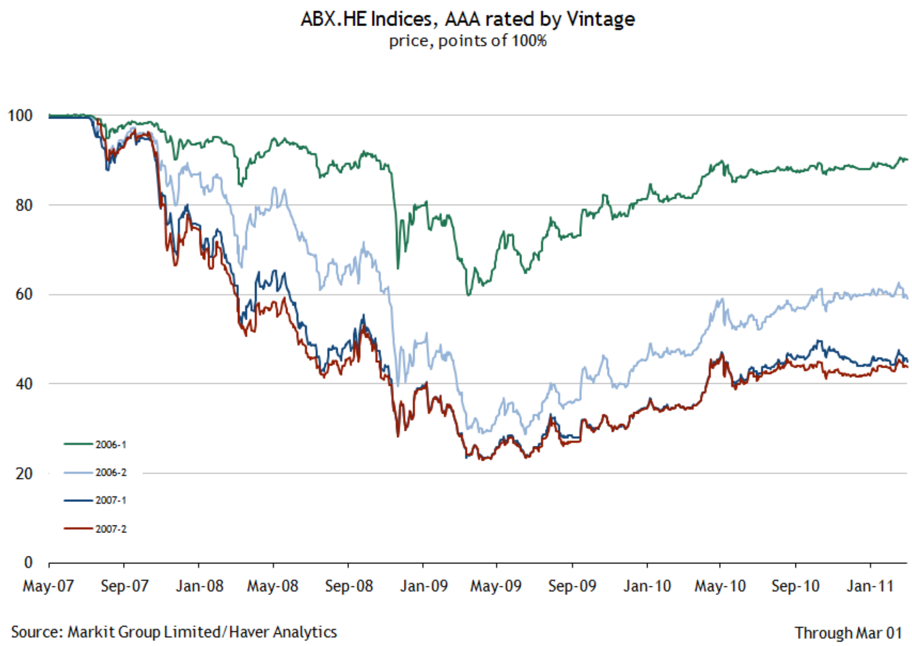
CDS spreads for Spain and Ireland have improved but are wider for Greece.



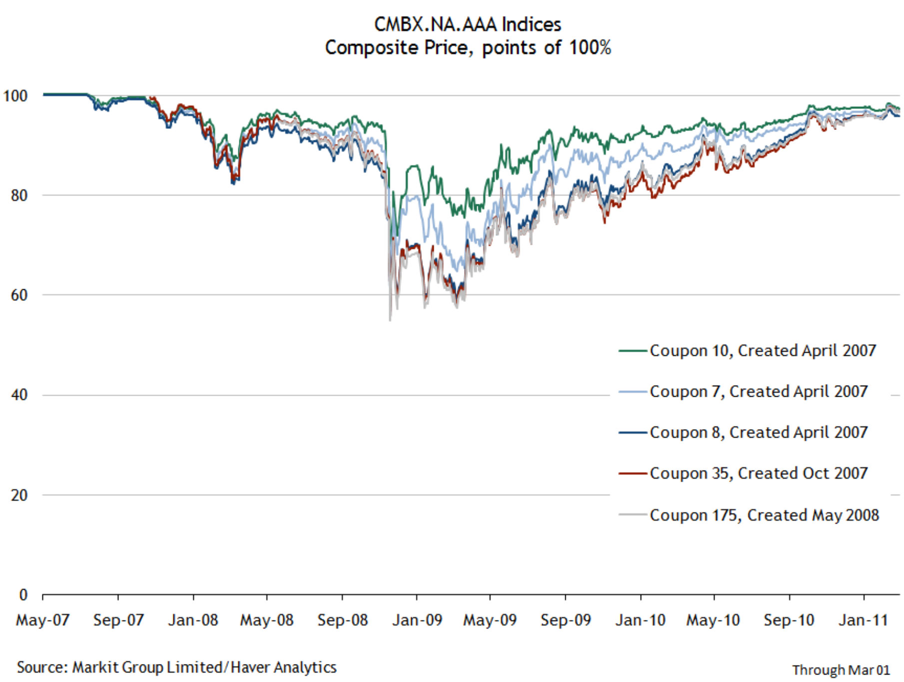
Securitization Markets

Summary

The ABX has changed little during the past couple of months, an indication that the cost to insure against default on the underlying home equity loans is stabilizing.



The index value of commercial MBS credit default swaps also appears to be stabilizing. All vintages of the CMBX.NA.AAA are converging at close to prerecession levels. Increases in the index indicate a decrease in the cost to insure against default of commercial MBS.



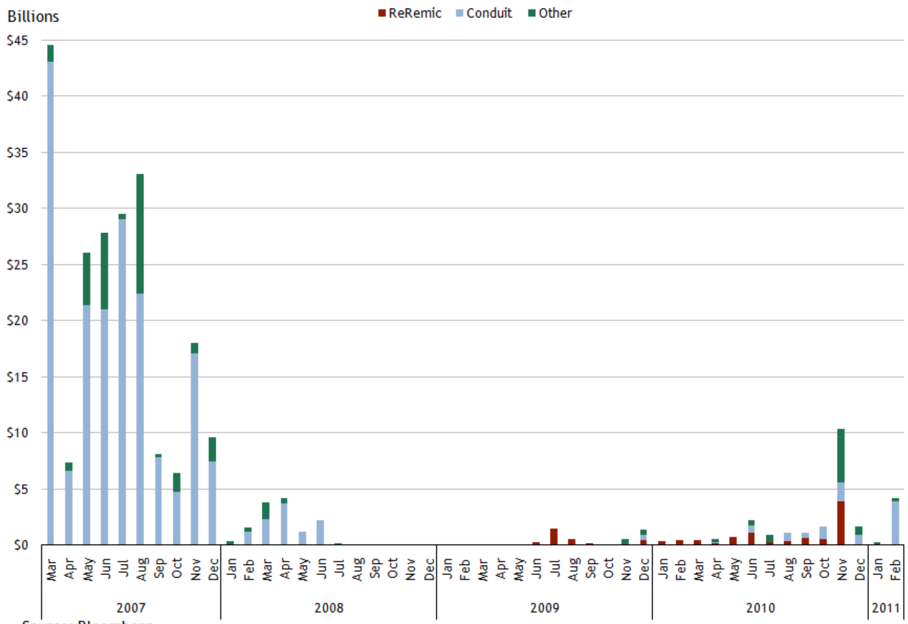
Securitization Markets

Summary

There were three conduit deals in February, following almost no issuance of CMBS in January.

Except for January, there has been at least one conduit deal every month since June 2010, a sign that the CMBS issuance market is coming back.

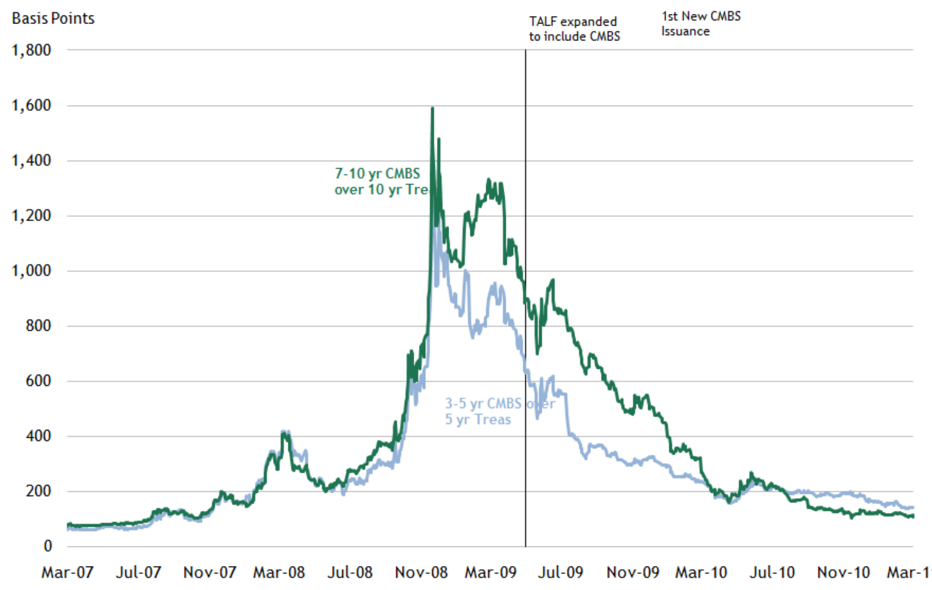
Commercial MBS Issuance by Type



Source: Bloomberg

Top-rated CMBS yield spreads over Treasuries have been relatively stable since August.

AAA-rated CMBS Yield Spreads to Treasury



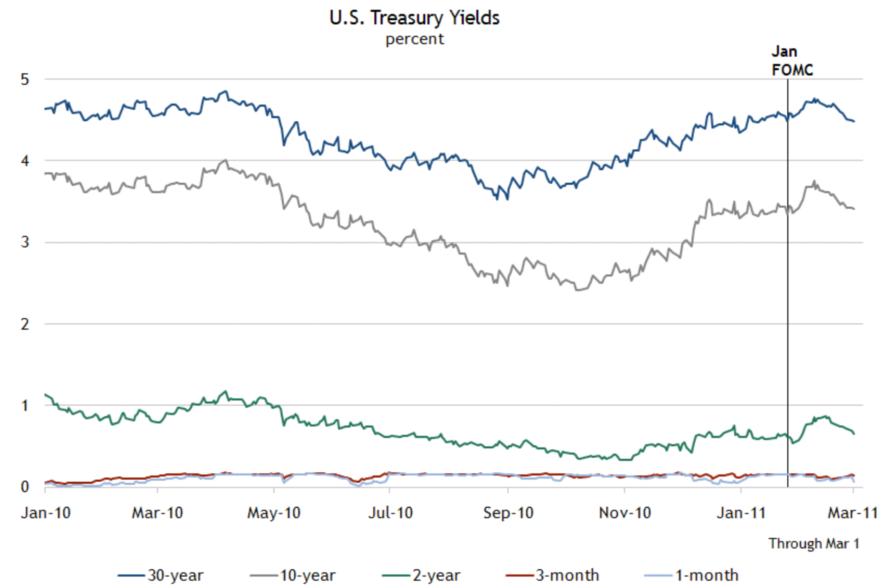
Sources: Merrill Lynch/Bloomberg

Through Mar 01

Broad Financial Market Indicators

Summary

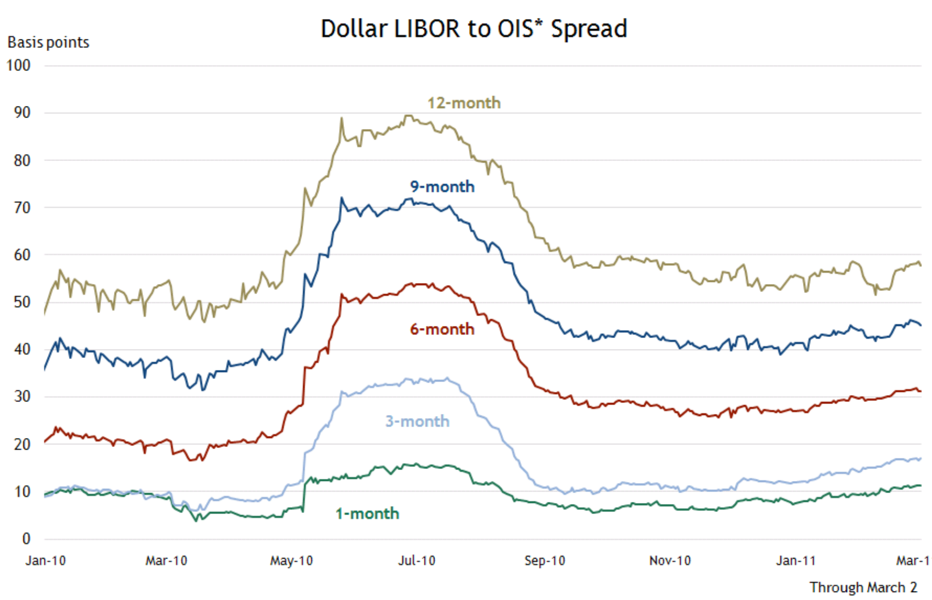
Treasury yields initially rose following the January FOMC meeting but have fallen recently from safe-haven flows.



Source: Federal Reserve Board/Haver Analytics

- Since the January FOMC meeting, the 30-year Treasury bond yield is down 11 bps to 4.48%, the 10-year note's yield is lower by 14 bps to 3.41%, and the two-year note is up 4 bps to 0.66%.

LIBOR to OIS spreads are up modestly, with the one- and three-month spreads up 2 basis points (bps) and 3 bps, respectively, since the January FOMC meeting.



Source: British Bankers Association/Bloomberg

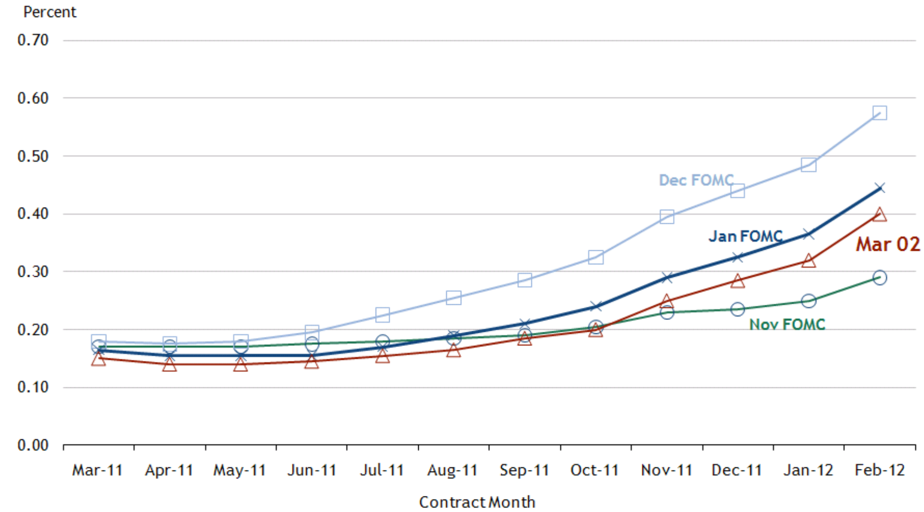
*Overnight Index Swap rate

Broad Financial Market Indicators

Summary

The curve of expected federal funds rates has been relatively stable over the past week, showing a lower path of interest rates than what prevailed at the last FOMC meeting.

Fed Funds Futures Rates



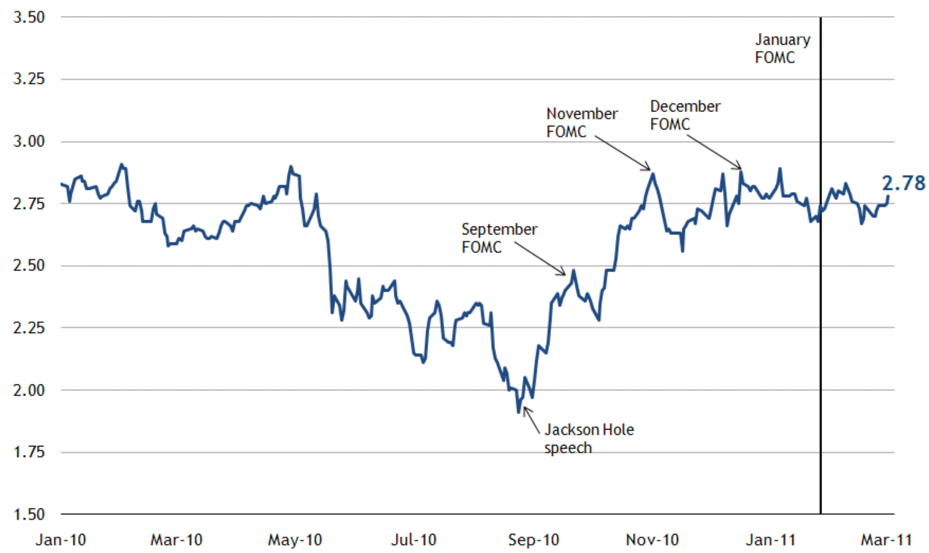
Source: Bloomberg

- As of March 2, 2011, the futures market for fed funds indicates an implied rate of about 40 bps for the February 2012 contract, down 4 bps from the time of January's FOMC meeting.

Breakeven inflation rates have moved slightly higher since the January FOMC meeting.

Barclays 5-yr/5-yr Forward Breakeven Inflation Rate

percent



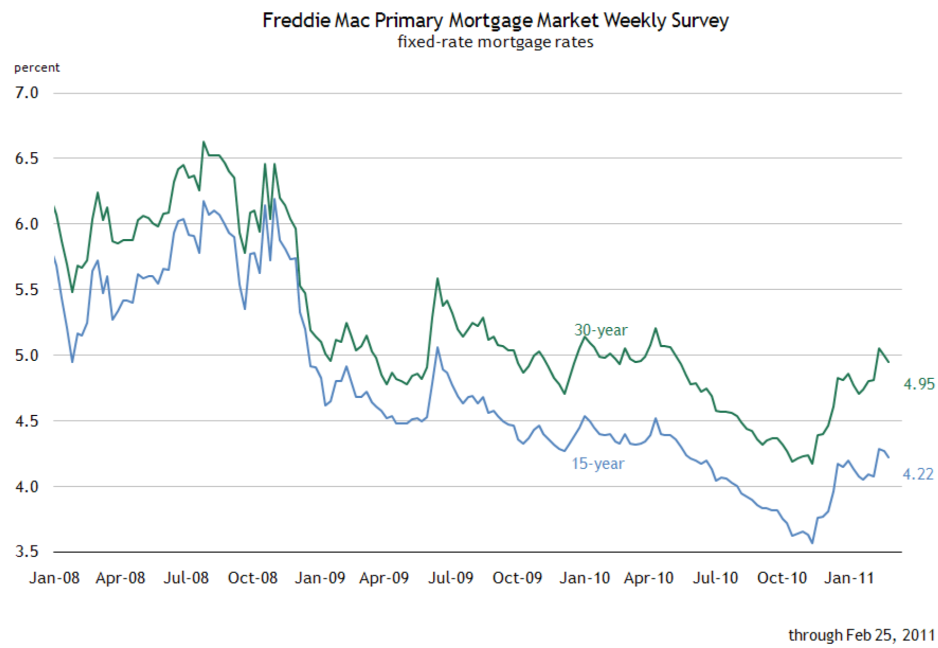
Source: Barclays Capital

- Using one measure calculated by Barclays, the TIPS market suggests investors see CPI inflation five to 10 years out as averaging about 2.78% as of March 2, 2011, which is higher by 4 bps since the January 2011 FOMC meeting.

Mortgage Rates

Summary

Rates for fixed-rate mortgages fell for the week ended February 25.



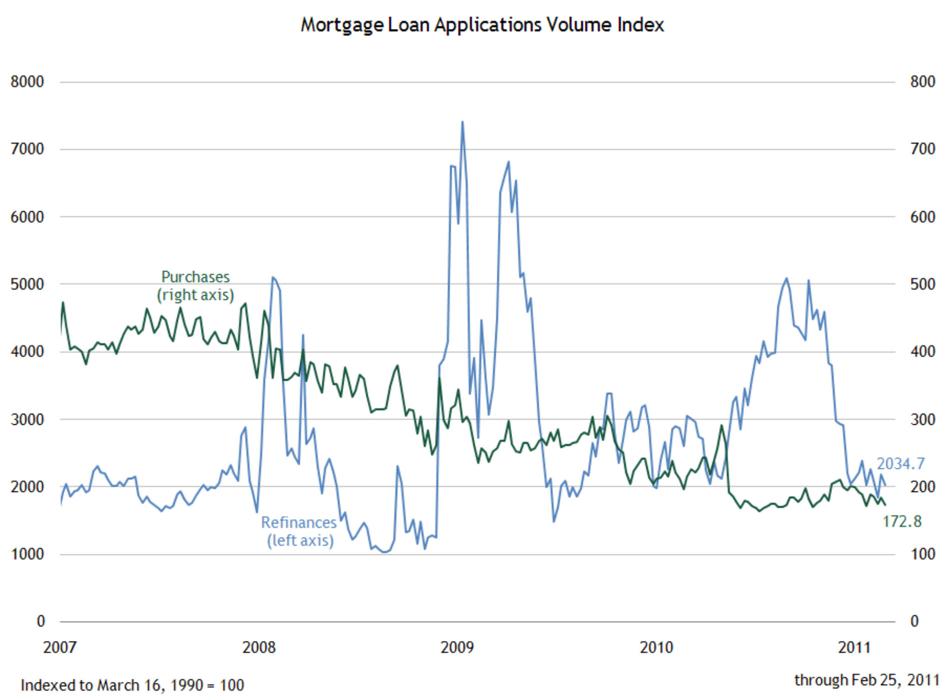
Source: Federal Home Loan Mortgage Corporation/Haver Analytics

- The 30-year fixed rate averaged 4.95%, down slightly from 5% a week ago. At this time last year the 30-year fixed rate averaged 5.05%.
- The 15-year fixed rate averaged 4.22%, down from 4.27% a week ago. At this time last year the 15-year fixed rate mortgage averaged 4.40%.

Mortgage loan application volume decreased for the week ending February 25, 2011.

The refinance index declined 6.5% from the one week earlier. The purchase index also fell 6.1% from the previous week.

The purchase index and refinance index are measures of loan application volume reported in the MBA's Weekly Application Survey. The survey has been conducted weekly since 1990 and covers more than 50 percent of all U.S. retail residential mortgage applications.



Source: Mortgage Bankers Association/Haver Analytics

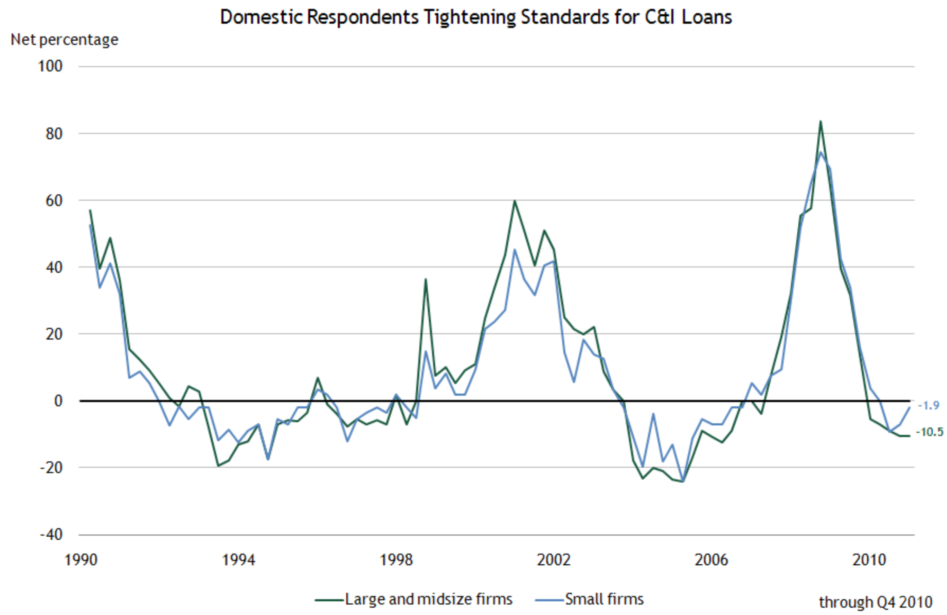
- The refinance share of mortgage activity decreased to 64.9% from 65.7% the previous week.

Senior Loan Officer Opinion Survey

Summary

The January 2011 Senior Loan Officer Opinion Survey (covering Q4 2010 activity) indicated domestic banks continued easing standards on commercial and industrial (C&I) loans to large and middle-market firms. Few banks reported changing terms on loans to small firms.

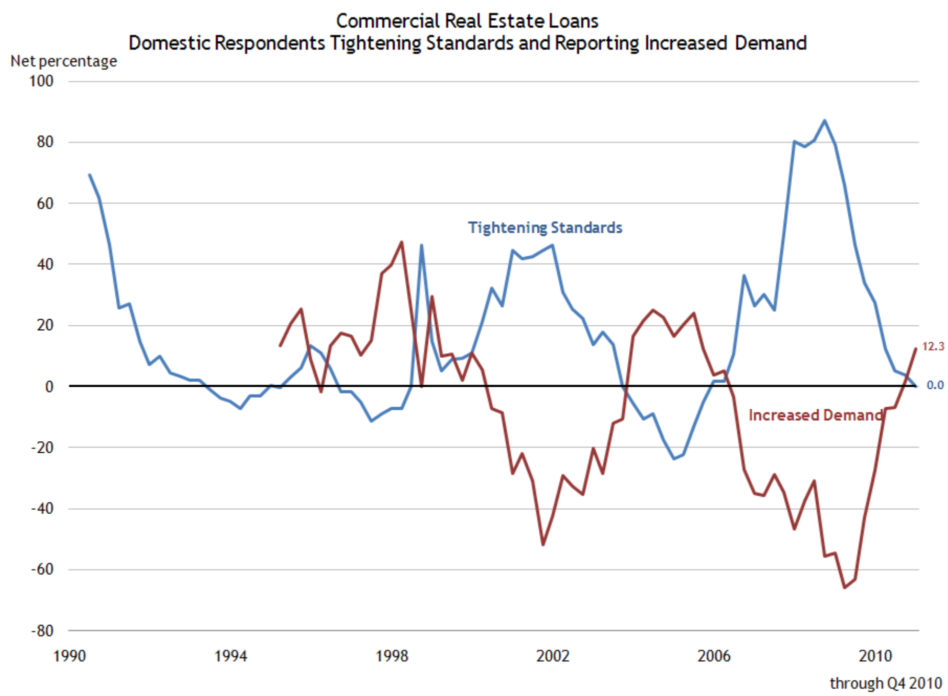
Banks cited increased competition from other banks and nonbank lenders, as well as a more favorable or less uncertain economic outlook as important factors behind the recent easing of terms and standards.



Source: Board of Governors

Standards and terms for commercial real estate (CRE) loans were unchanged.

On net, just over 10% of domestic banks reported increased demand for CRE loans. CRE loan demand recorded its strongest reading since early 2006.



Source: Board of Governors