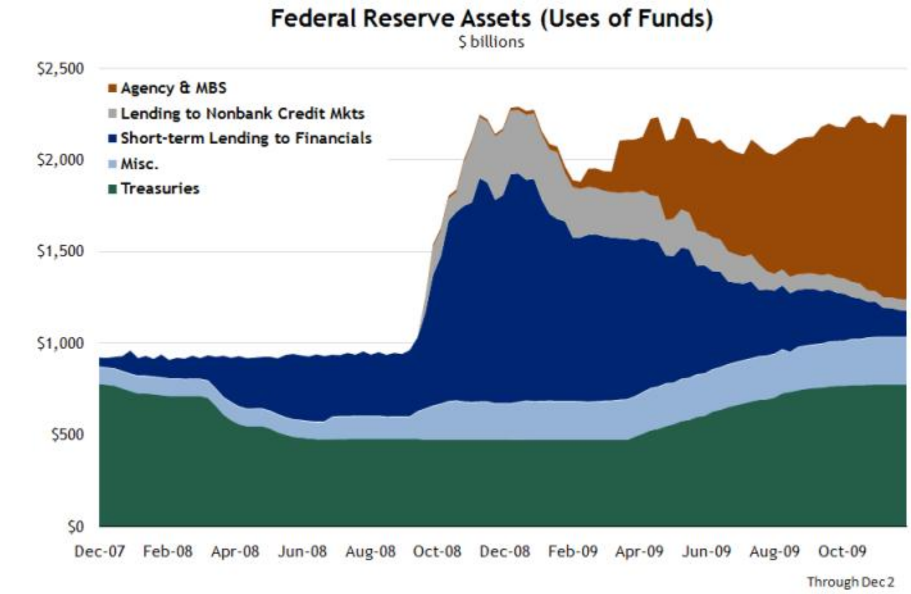
December 9, 2009

Financial Highlights

Federal Reserve

Summary

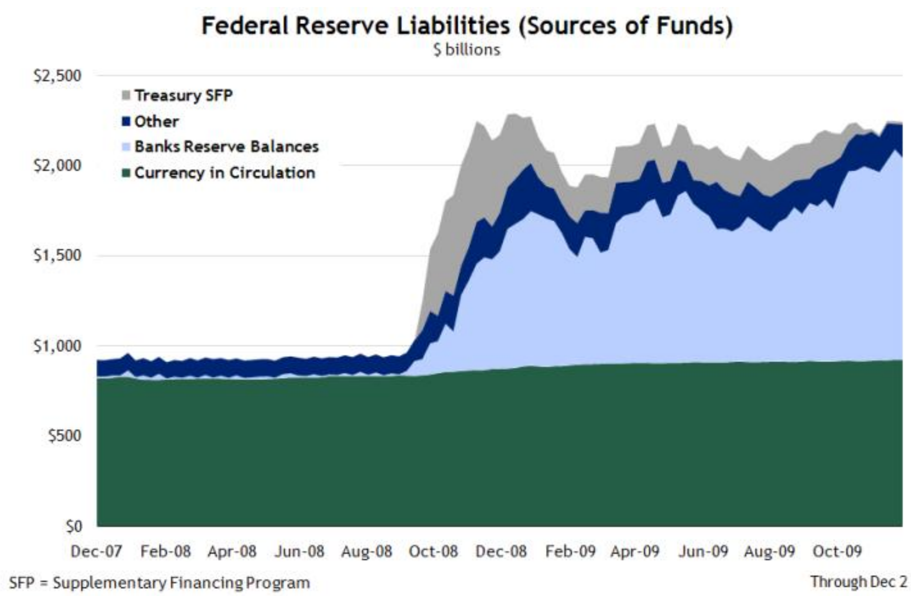
The balance sheet shrank slightly between November 26 and December 2 to $2.24 trillion.



Source: Federal Reserve Board

- During the week, the amount of credit extended to AIG was cut in half and exchanged for $25 billion in preferred interest in two special purpose vehicles, AIA Aurora LLC and ALICO Holdings LLC. The special purpose vehicles hold outstanding common stock of AIA and ALICO, two life insurance subsidiaries of AIG.

On the liabilities side, bank reserves decreased by $46 billion and have remained above $1 trillion for eight consecutive weeks.



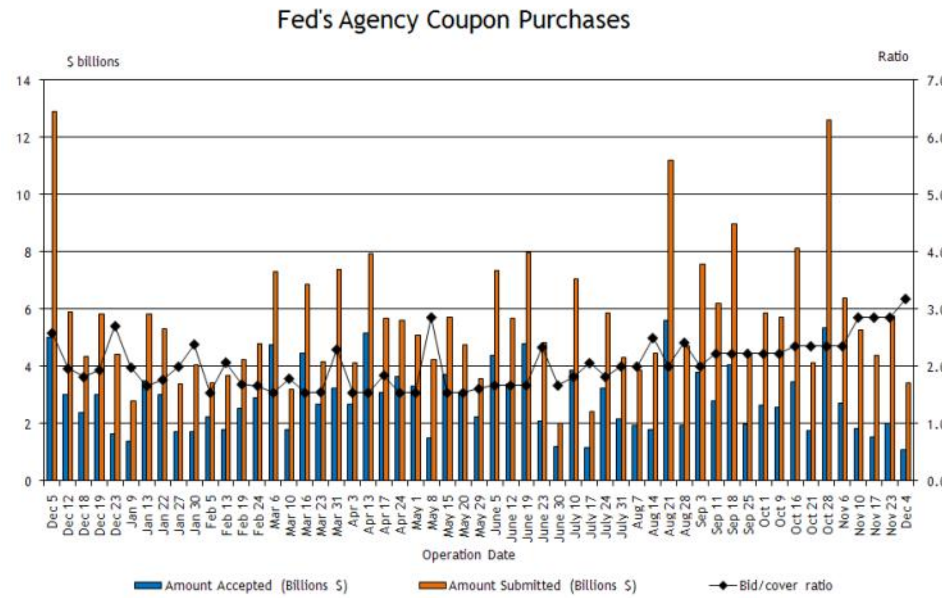
Source: Federal Reserve Board

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.

Federal Reserve

Summary

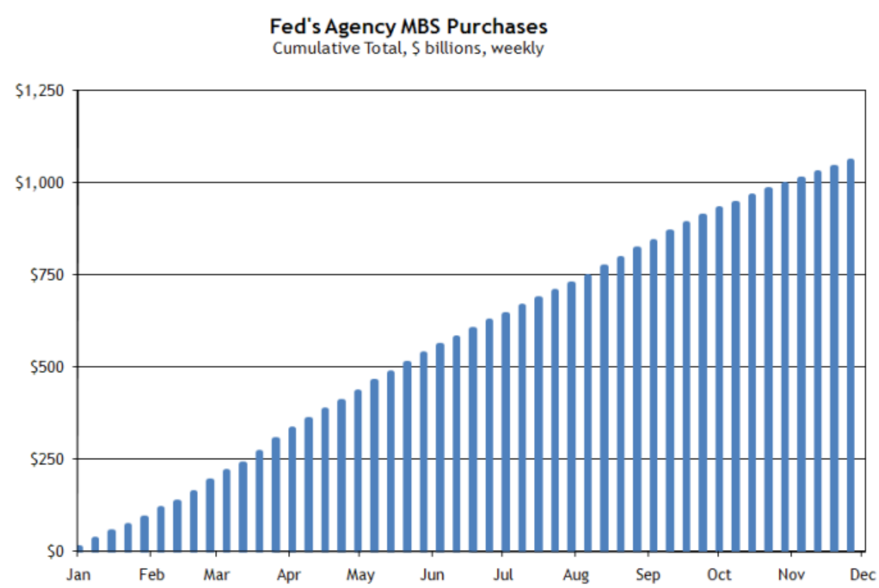
The Fed is nearly 90% complete with its agency debt purchase program, scheduled to conclude in March 2010.



Source: NY Fed

- The Fed has completed $156.15 billion of its $175 billion agency debt purchase program through December 9 (making it 89% complete). On December 4 it made a purchase of $1.08 billion, the smallest purchase in the history of the program.

The Fed has now purchased over $1 trillion in agency-backed MBS through the week ended December 2.



Source: NY Fed

- The Fed purchased a net total of $16 billion of agency-backed MBS in each of the last three weeks, with the last one through December 2. This purchase brings its total purchases up to $1.058 trillion, and by the end of the first quarter 2010 the Fed will have purchased $1.25 trillion (thus, it is 85% complete).
- In the last two months, the average weekly amount of MBS purchased has been smaller, averaging $17 billion over the last 10 weeks versus the average of $23.4 billion before that period.

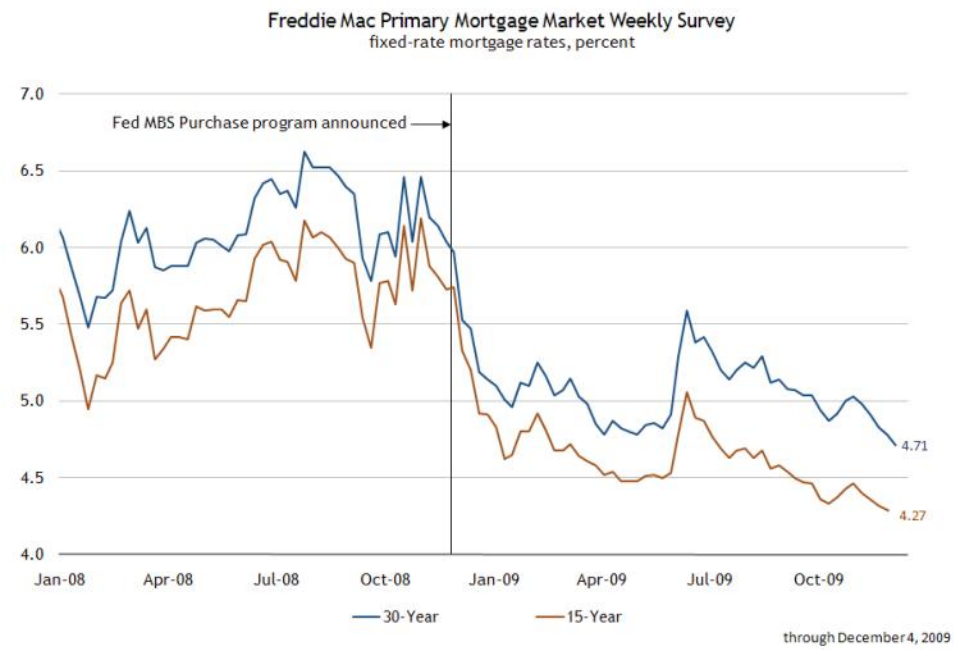
Mortgage Applications and Agency OAS

Summary

Both the 30– and 15-year fixed mortgage rates continue to trend downward, setting new record lows.

The 30-year rate averaged 4.71 percent, down from 4.78 percent a week ago and at its lowest level since the survey began in 1971.

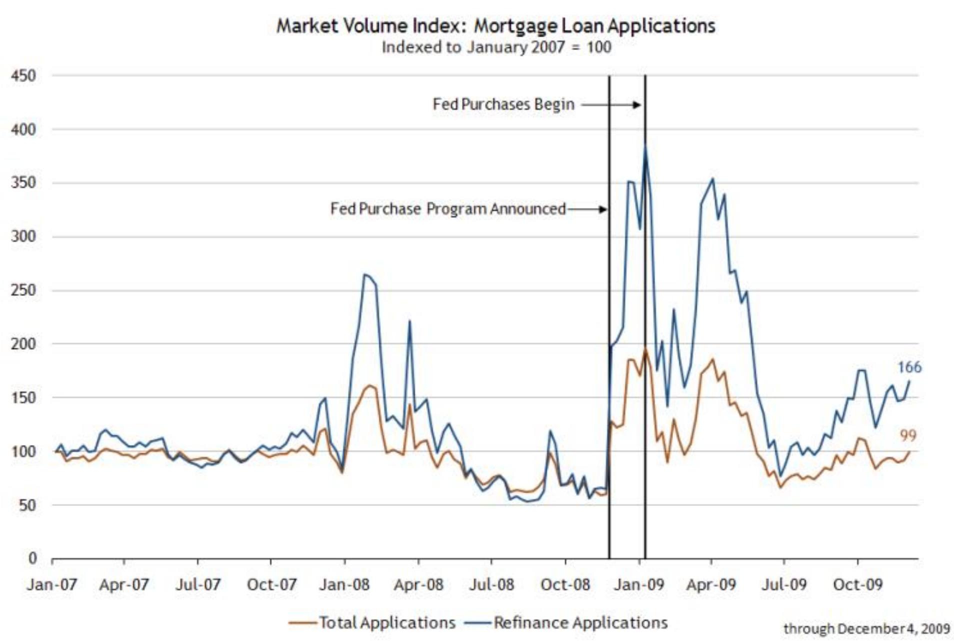
The 15-year rate averaged 4.27 percent, down from 4.29 percent a week ago and at its lowest level since Freddie Mac began tracking it in 1991.



Source: Federal Home Loan Mortgage Corporation/Haver Analytics

- For the week ending December 4, mortgage rates declined to new record lows. At this time last year, the 30-year fixed rate averaged 5.53%; the 15-year fixed rate averaged 5.33%.

Both total mortgage loan application volume and refinance application volume remain below their peaks in January and April.



Source: Mortgage Bankers Association/Haver Analytics

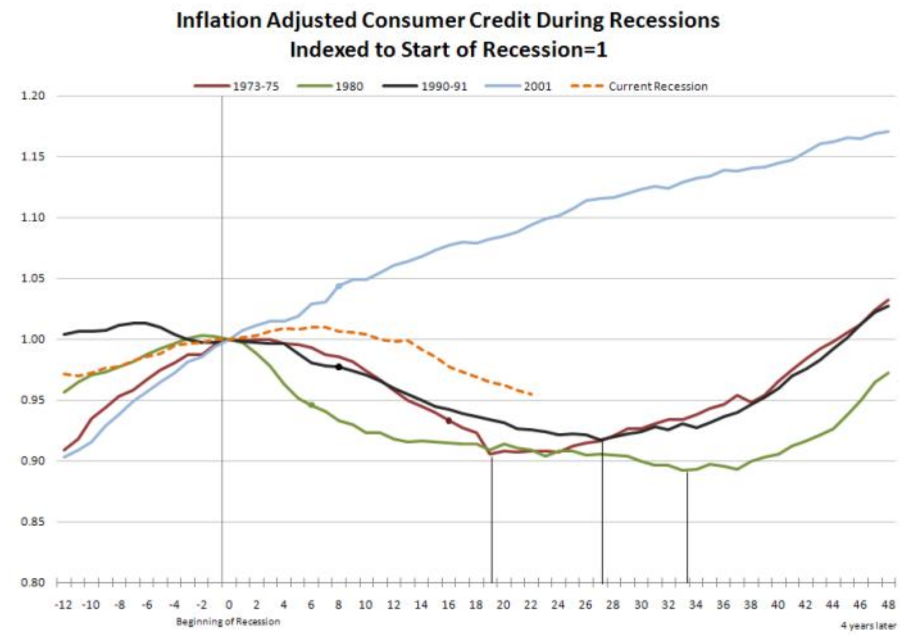
- For the week ending December 4, total mortgage application volume and total refinance application volume increased over the previous week. Total mortgage application volume increased 8.5% from the previous week and remains slightly below the January 2007 level; total refinance application volume increased 11.1% from one week earlier and is 66% higher than the January 2007 level.

Consumer Credit

Summary

Consumer credit outstanding fell in October for the ninth straight month; revolving credit declined $6.9 billion, offsetting the $3.5 billion increase in nonrevolving.

In terms of percentage declines, the contraction in inflation-adjusted consumer credit is similar to three of the past four recessions (1980 and 1981-82 are treated as one recession here).



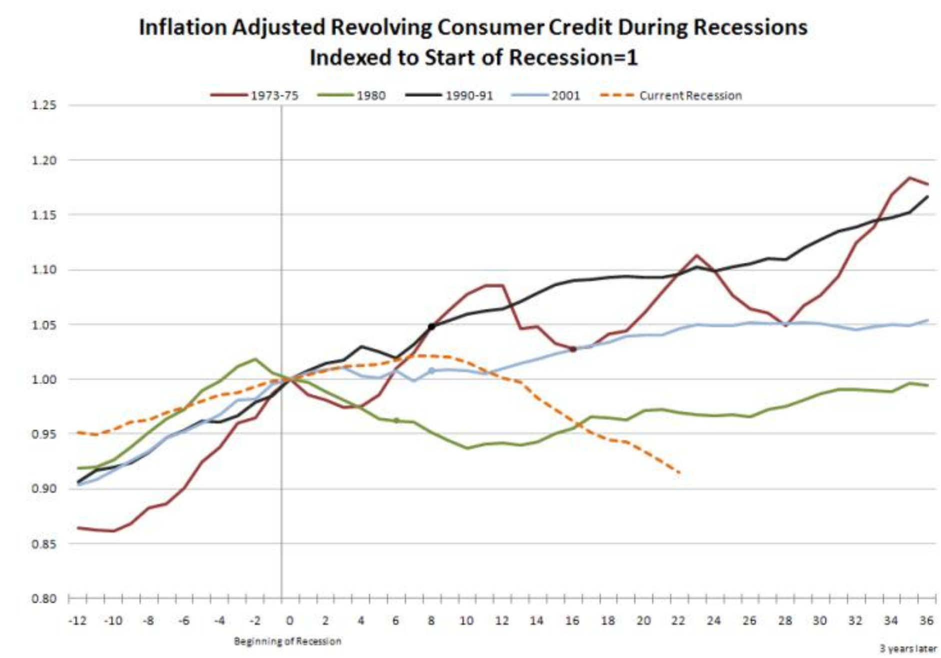
Sources: Federal Reserve Board, BEA, and NBER

- Inflation-adjusted consumer credit in the current recession began declining shortly after the recession began and has declined 5.5% so far. The percent declines for three of the past four recessions are shown below:

Recession	Trough Month	% decline from beginning of recession
1973-75	19	8%
1980 and 1981-82	33	11%
1990-91	27	8%

Unlike past recessions, most of the decline in inflation-adjusted consumer credit has been from revolving credit. Of the $96 billion in declines since August 2008, $62 billion has come from revolving, with only $33 coming from nonrevolving.

Some of the decline in revolving credit is the result of card issuers tightening lending standards and reducing credit limits as they attempt to minimize costly charge-off rates.



Sources: Federal Reserve Board, BEA, and NBER

- This recession has seen much larger declines in revolving credit and will take much longer to recover.

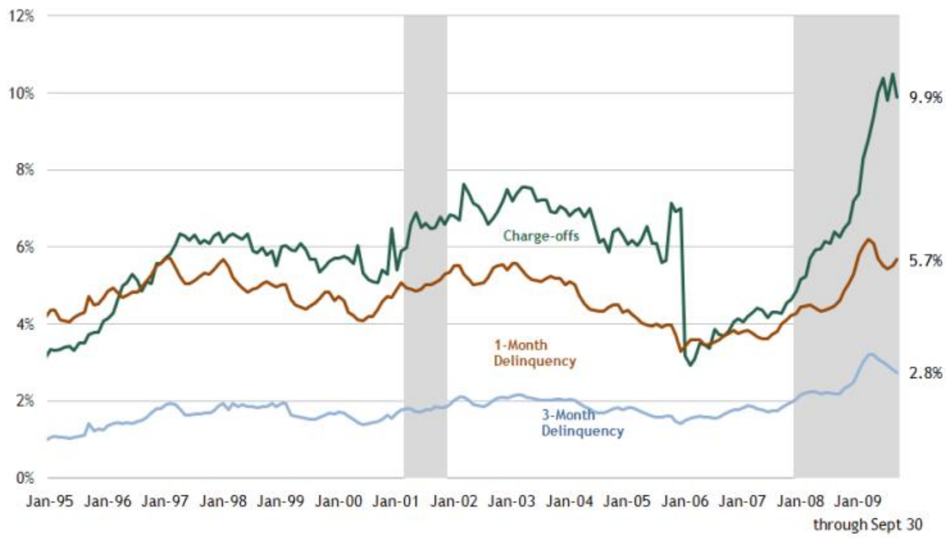
Consumer Credit

Summary

Charge-off rates fell 60 basis points (bps) in September, to 9.9%.

The one-month delinquency rate increased 16 bps to 5.7%, and the three-month delinquency rate declined 6 bps, to 2.8%.

Credit Card Charge-off & Delinquency Rates

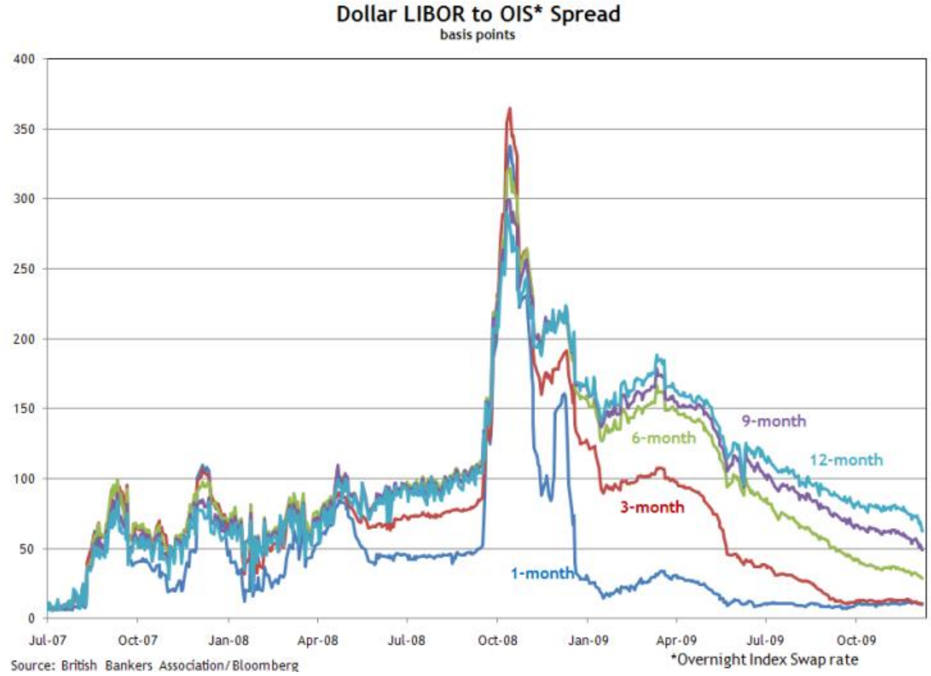


Source: Standard & Poors and Haver

Broad Financial Market Indicators

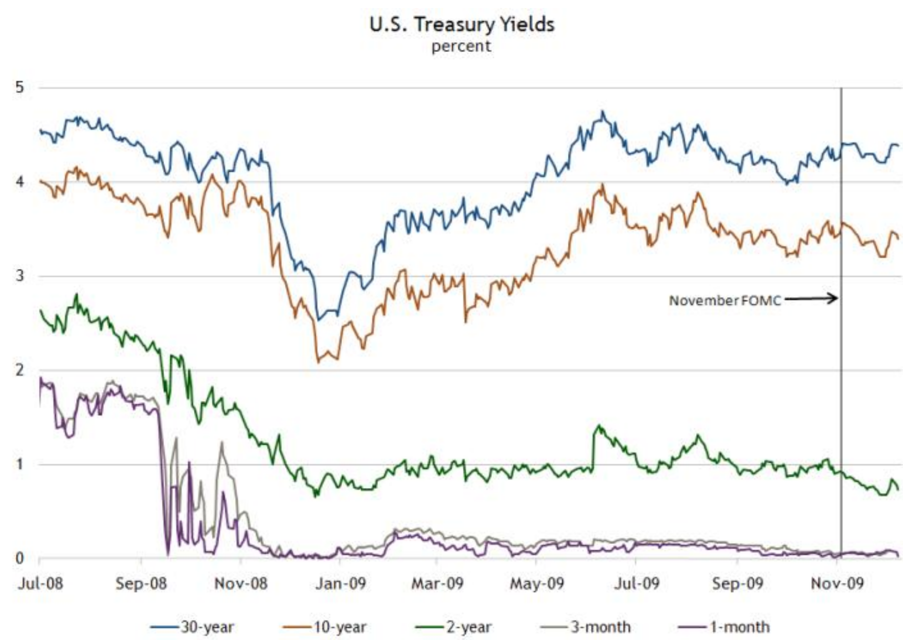
Summary

LIBOR-to-OIS spreads continue to be stable for the one- and three-month tenors but have declined further out.



- The one-month and three-month Dollar LIBOR-to-OIS spreads are relatively stable at 10.4 and 11 bps, respectively. Further out, spreads have fallen.
- Since the September 23 FOMC meeting, the six-, nine-, and 12-month spreads have declined 17, 20, and 20 bps, respectively. Though the market has improved, risks remain, as shown in the higher spreads of longer tenors (whereas precrisis spreads were similar across tenors). In other words, there is still some counterparty and/or liquidity risk at longer tenors.

Treasury yields have moved lower since the November FOMC meeting though they rose sharply following the employment report released on December 4.



Source: Bloomberg

- Following the last FOMC statement on November 4, Treasury yields have moved lower: Through December 8, the 30-year bond is down 2 bps to 4.39%, the 10-year 17 bps moved lower to 3.40%, and the two-year note has fallen 18 bps to 0.73%.
- On Friday, December 4, however, yields shot up after the release of the November employment report, rising 7, 9, and 10 bps for the 30-, 10-, and two-year Treasuries.