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Stevens, John - Subject Files

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Folder Title:

John Stevens 2007-2008; Background: Federal Reserve Actions (2007-2008)

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DOCUMENT NO.	FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
001	Handwritten Note	Call w/ Gene Foma, Myron Schules, Sandy Grossman	2	03/17/2008	P5;
002	Memorandum	An Assessment of Current Macroeconomic Conditions - From: Pierce Scranton	2	03/14/2008	P5;
003	Email	Primary Dealer Lending Facility FAQ - To: John Stevens - From: Stevens, John J.	3	03/17/2008	P5; P6/b6;

COLLECTION TITLE:
Council of Economic Advisers
SERIES:
Stevens, John - Subject Files
FOLDER TITLE:
John Stevens 2007-2008; Background: Federal Reserve Actions (2007-2008)
FRC ID:
12768

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advise between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

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EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20502

March 12, 2008

INFORMATION

TO: DPC

FROM: ELIZABETH SCHULTZ AND JACOB MOHS

SUBJECT: FEDERAL RESERVE ACTIONS IN 2007 AND 2008

This memo summarizes actions the Federal Reserve has taken to address credit market liquidity and housing. The main points of this memo are as follows:

- To address liquidity concerns, the Federal Reserve has reduced its policy interest rates, the federal funds rate and the discount rate, by 225 basis points and 275 basis points, respectively, since the beginning of August 2007.

- The Federal Reserve has taken addition measures to address liquidity, such as instituting a Term Auction Facility to auction additional loans. The latest action was to begin lending Treasuries in exchange for other types of debt, including mortgage-backed securities.

- To address housing, the Federal Reserve has worked with other regulators to issue guidance for prudent practices in mortgage lending. In addition, the Federal Reserve has proposed new rules aimed at improving transparency in mortgage lending and addressing unfair mortgage lending practices.

The Federal Reserve has cut its policy interest rates.

- The Federal Reserve has reduced the federal funds target rate five times since August 2007, reducing the rate from 5.25% to 3.00%. The Federal Reserve uses open market operations to provide the liquidity necessary to maintain the target rate.
- The Federal Reserve has reduced the discount rate six times since August, reducing the primary discount rate from 6.25% to 3.50%. The discount rate is the interest rate on loans from the discount window, which acts as a lender of last resort and accepts a wide range of collateral, including home mortgages and related assets.

2007 & 2008 Federal Reserve Policy Interest Rate Changes, in Percent

Date	Federal Funds		Discount	
	Change	New Rate	Change	New Rate
Aug 17	--	--	-0.50	5.75
Sep 18	-0.50	4.75	-0.50	5.25
Oct 31	-0.25	4.50	-0.25	5.00
Dec 11	-0.25	4.25	-0.25	4.75
Jan 22	-0.75	3.50	-0.75	4.00
Jan 30	-0.50	3.00	-0.50	3.50

Source: Federal Reserve Board

The Federal Reserve has implemented special lending programs to encourage liquidity.

- The Federal Reserve instituted a temporary Term Auction Facility (TAF). Under the TAF, the Federal Reserve auctions off a fixed amount of loans. The interest rate is determined by the bids, subject to a minimum bid rate. The loans can be backed by the same types of collateral accepted at the discount window, which is a broader category than those accepted for open market operations loans.
- The Federal Reserve has authorized reciprocal currency arrangements with the European Central Bank and the Swiss National Bank. These agreements make U.S. dollars available to the other banks to use to support dollar liquidity in their jurisdiction. The Federal Reserve made a total of $24 billion available in December. On March 11, the Federal Reserve announced that it was making available an additional $12 billion.

Term Auction Facility Auctions

Date	Amount Auctioned ($Bil)	Bids Received ($Bil)
Dec 17	20.000	61.553
Dec 20	20.000	57.664
Jan 14	30.000	55.526
Jan 28	30.000	37.452
Feb 11	30.000	58.400
Feb 25	30.000	67.958
Mar 10	50.000	92.595
Mar 24	50.000	

Source: Federal Reserve Board

- On March 11, the Federal Reserve announced an expansion of its securities lending program. Previously, the Federal Reserve lent Treasuries overnight. Under the new program, the Federal Reserve will lend $200 billion in Treasuries for 28 day terms in exchange for other types of debt, including mortgage-backed securities.
- In September, the Federal Reserve began allowing longer-term borrowing at the discount window.
- In December, the New York Federal Reserve extended the term of some of its open market operation loans.
- On March 7, the Federal Reserve announced special open market operation-type loans totaling up to $100 billion. The loans will be for 28 days and eligible collateral for the loans will be any securities eligible for conventional open market operations.

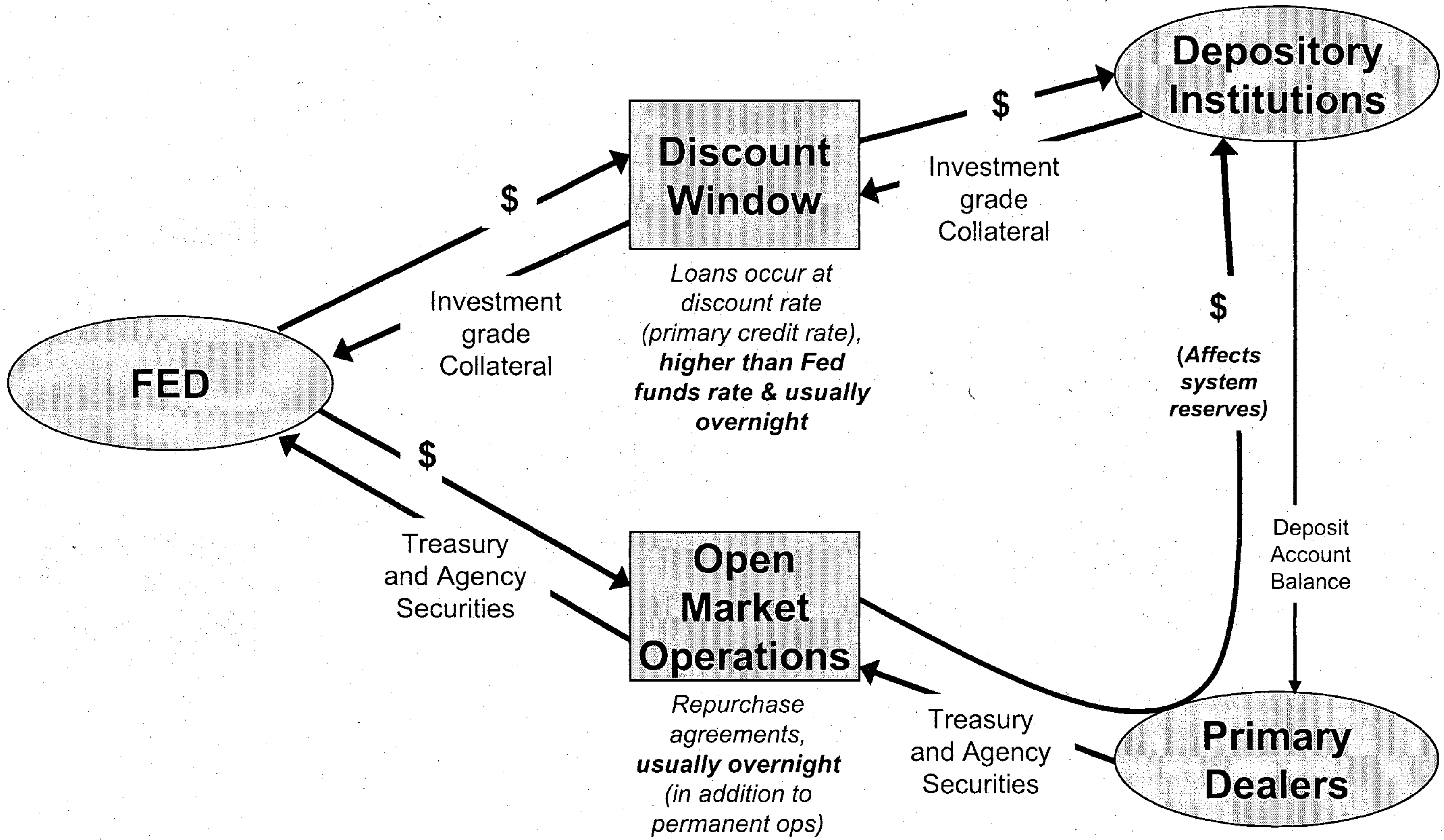
The Federal Reserve has issued guides and proposed rules to improve the housing market.

- The Federal Reserve, together with other regulators, has issued several statements intended to provide guidance to mortgage market participants. In April, it issued *Statement on Working with Borrowers,* encouraging mortgage workouts. In June, it issued *Statement on Subprime Mortgage Lending*, which described prudent practices for adjustable-rate mortgage lending.
- In December 2007, the Federal Reserve published proposed rules under Regulation Z of the Truth in Lending Act to make mortgage lending more transparent. The new rules would prohibit seven misleading advertising practices, such as using the term "fixed" to refer to a rate that can change, and would require truth-in-lending disclosures to borrowers early enough to use while shopping for a mortgage.
- The proposed rules would also address unfair mortgage lending practices. For example, the rules would require subprime lenders to verify income and assets before making a loan and would prohibit subprime lenders from making loans without considering borrowers' ability to repay them. The rules would also prohibit *all* lenders from paying mortgage brokers "yield spread premiums" without notifying the consumer in advance and from coercing appraisers to misrepresent the value of a home.
- In March, the Federal Reserve and other regulators sent letters to mortgage lenders encouraging them to report loan modifications in a consistent way. This will help provide standardized data across the industry and allow regulators to assess the effectiveness of loan modification efforts.

Federal Reserve Actions to Promote Liquidity and Expand Policy Operations: A Schematic Description

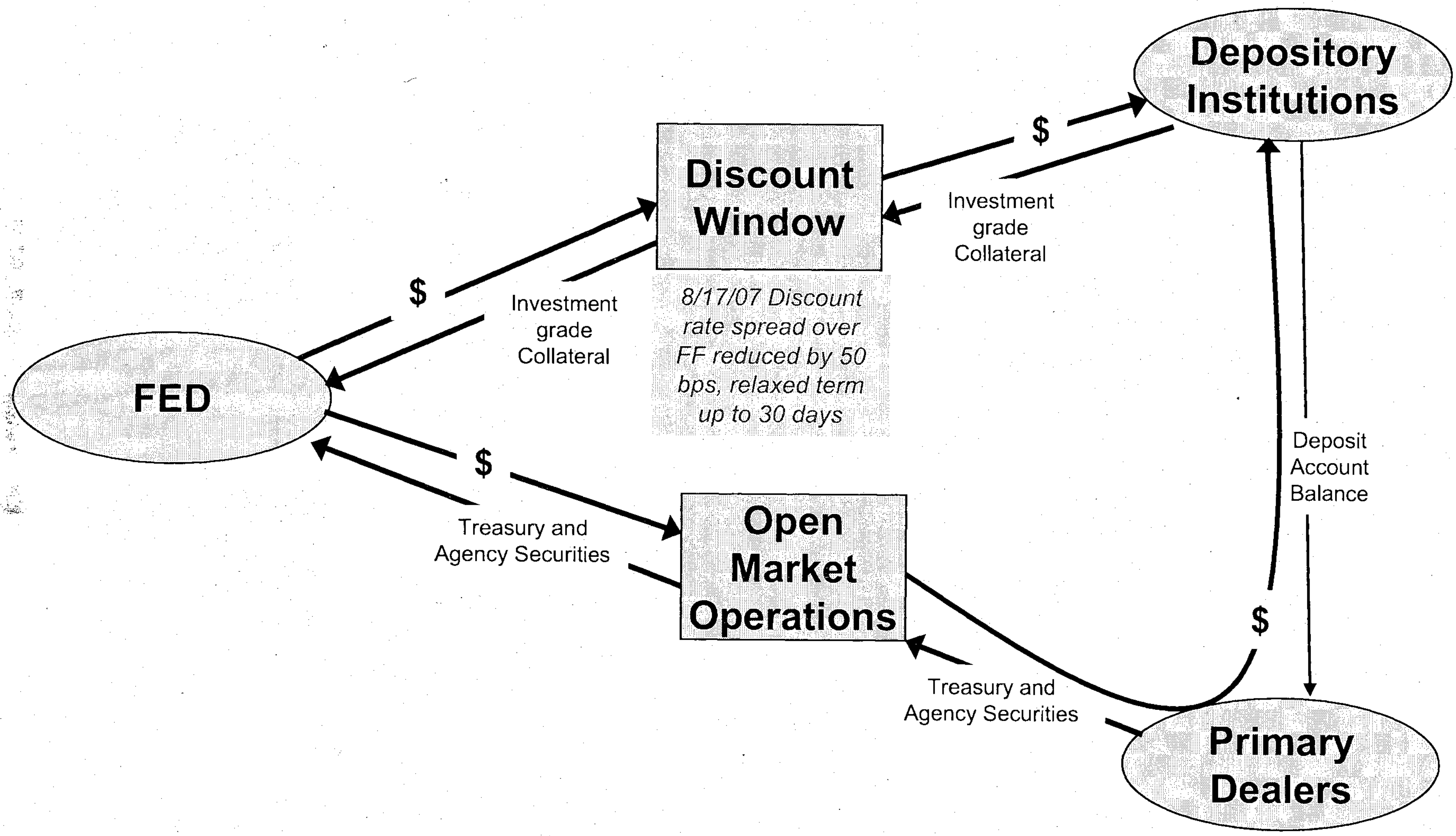
March 25, 2008

TEXTBOOK SYSTEM FOR FED POLICY FOR INCREASING RESERVES

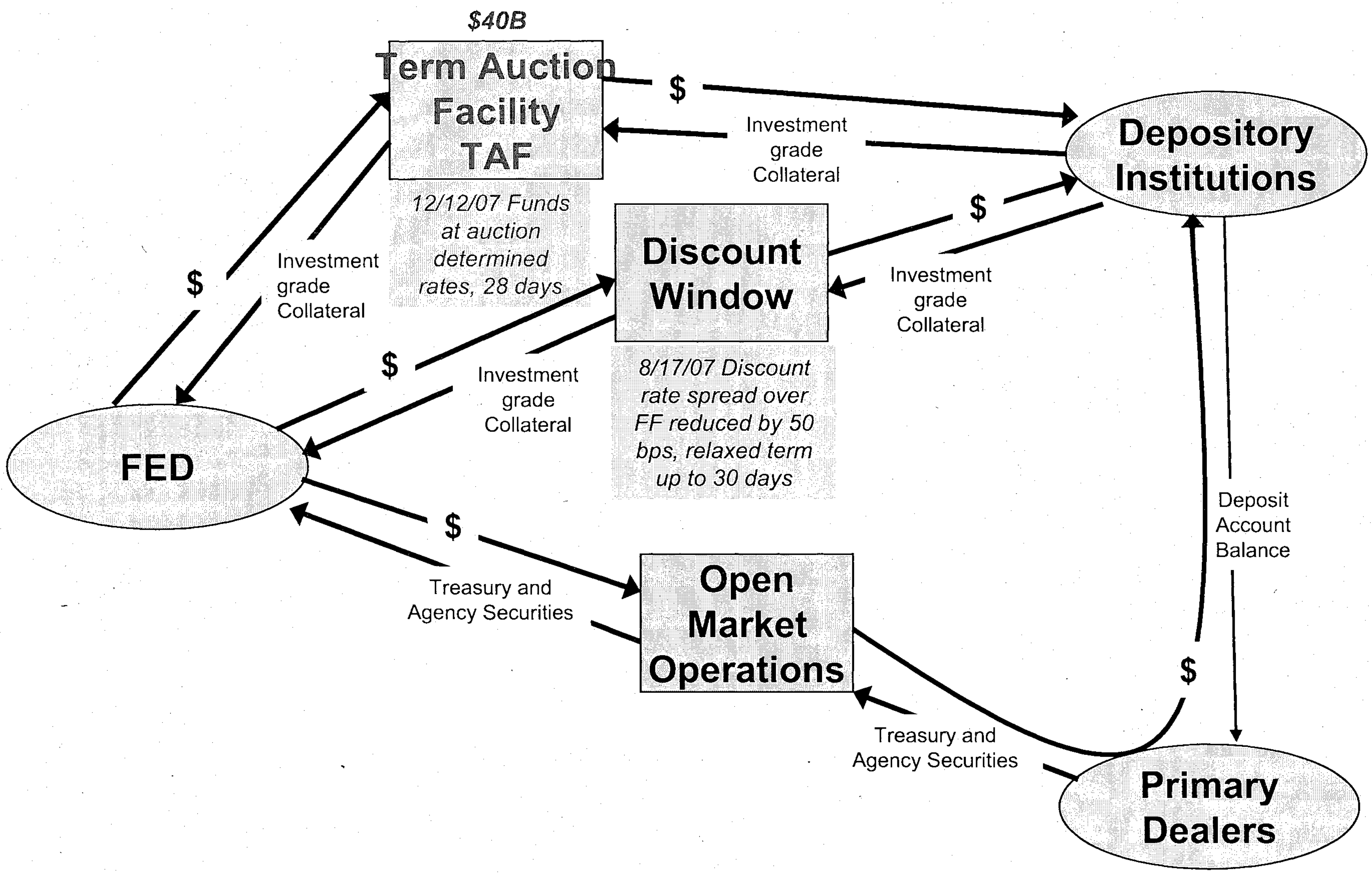


August 17, 2007 – Fed Relaxes Discount Window Policy

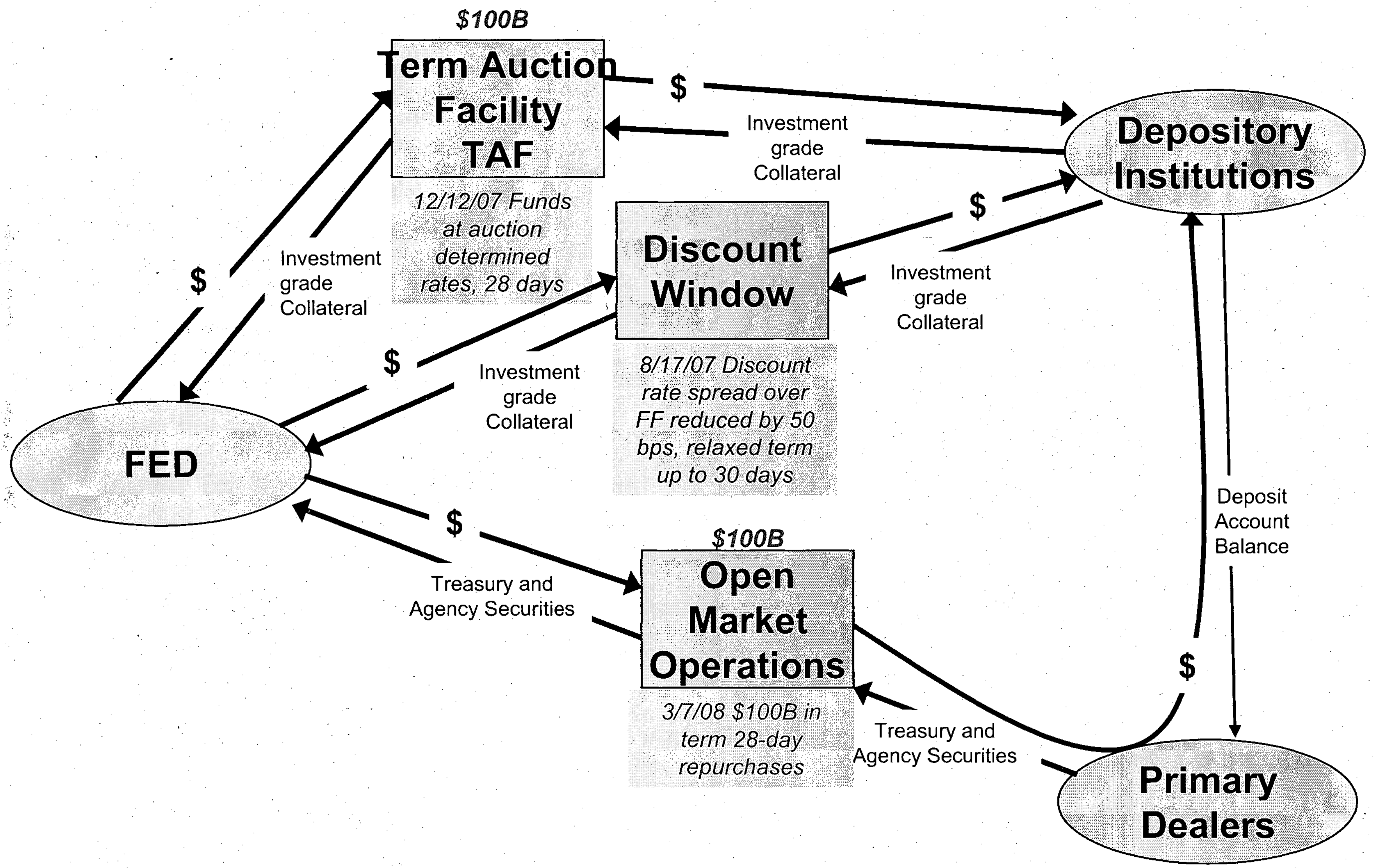
(Reduces Discount Rate "Penalty" Relative to Fed funds from 100 bps to 50bps)



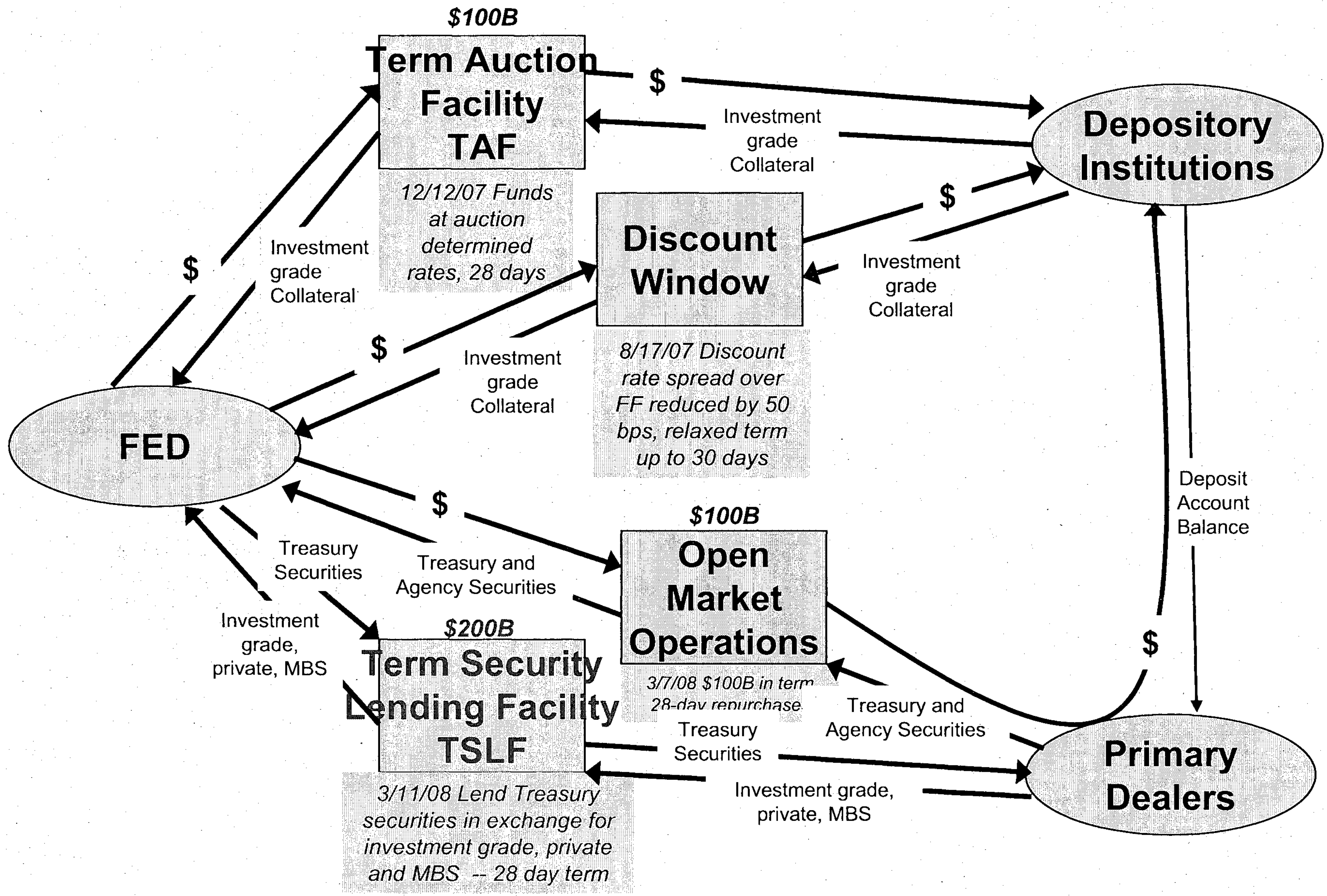
Dec. 12, 2007: Term Auction Facility to Further Promote Liquidity for Depository Institutions ($40B outstanding initially)



Mar. 7, 2008 – TAF increase to $100B … and $100B in Term 28-day Repurchases

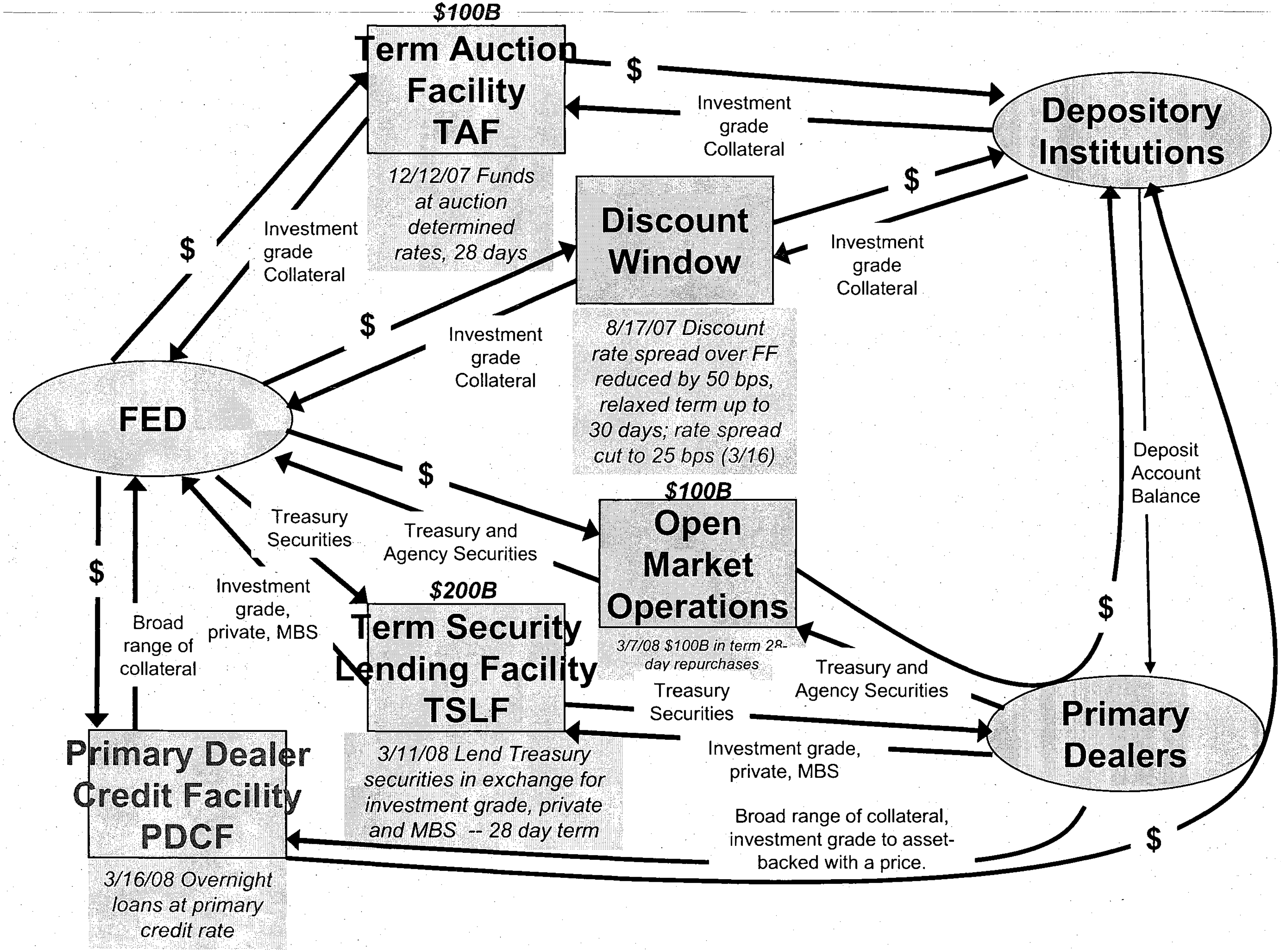


Mar. 11, 2008 – Term Security Lending Facility for Primary Dealers ($200B)

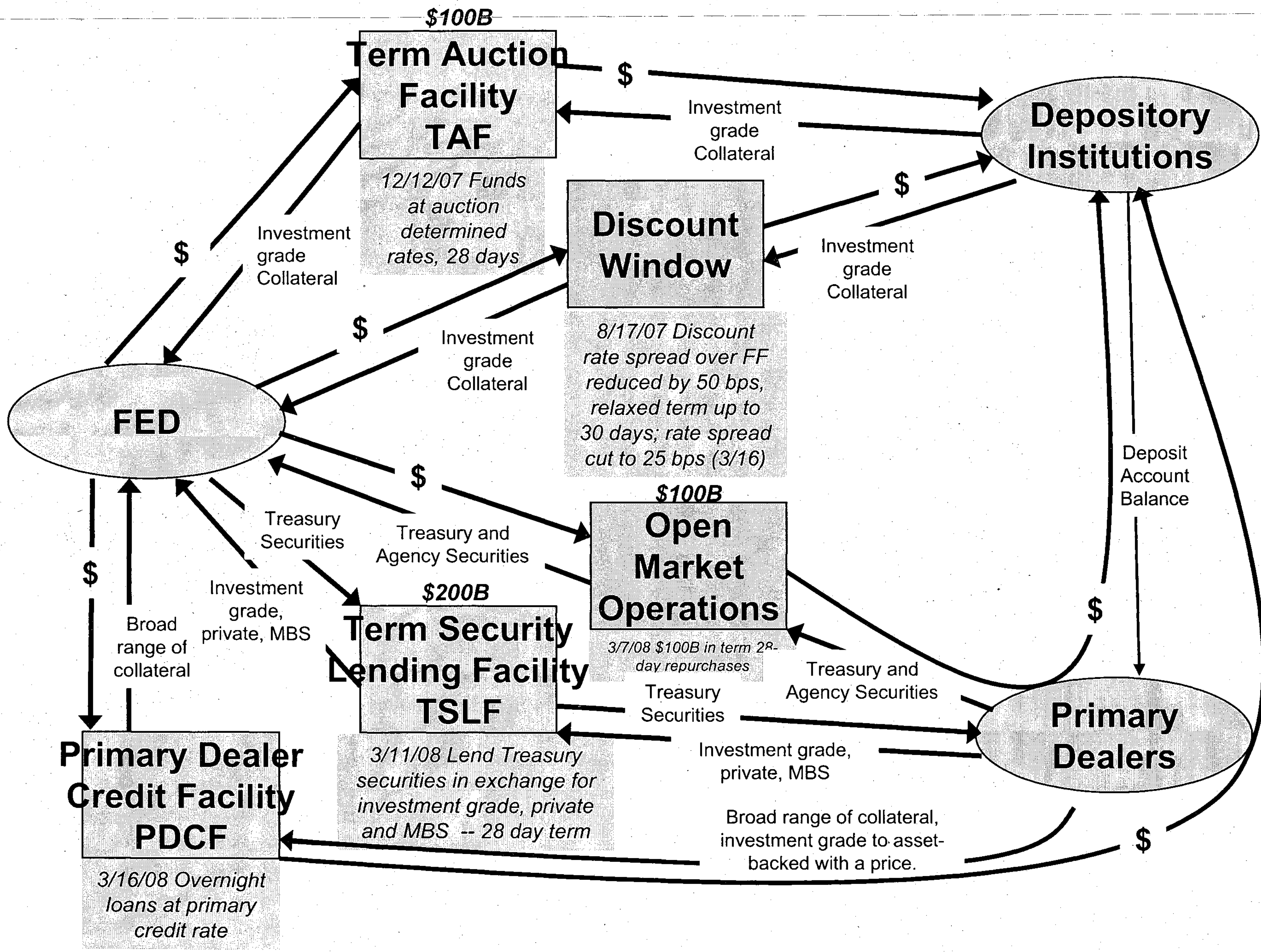


March 16, 2007 – Primary Dealer Credit Facility (Disc Window for Dealers)

Also further reduced Discount Window penalty to 25 BPs



EXPANDED SYSTEM FOR INCREASING RESERVES/LIQUIDITY



Recent Federal Reserve Policy Operations Actions

Comparisons of Existing and New Facilities

Term Auction Facility

	Existing Facility	***New Facility***
Criteria	**Discount Window Primary Credit**	**Term Auction Facility**
Eligibility	Sound Banks	Sound Banks
Interest Rate	Primary credit rate that is higher than the Fed funds rate	Determined in a single-price auction (in practice, lower than primary credit rate and closer to Fed funds rate)
Maturity	Overnight unconditionally; Up to several weeks if funding is unavailable from other sources	Ordinarily 28 days
Collateral	Various banking assets	Basically the same
Borrower Perception	Potential Stigma	?

Term Security Lending Facility

	Existing Facilities		***New Facility***
Criteria	**System Open Market Account Securities Lending Program**	**Open Market Repo Operations**	**Term Security Lending Facility**
Eligibility	Primary Dealers	Primary Dealers	Primary Dealers
Interest Rate	Determined in a multiple-price auction	Determined in the repo market	Determined in a single-price auction
Maturity	Overnight	Mostly overnight and up to 15 days	Normally 28 days
Collateral	Treasury and agency securities	Cash	Agency, agency res. MBS, and private AAA/Aaa residential MBS
Reserve Impact	No	Yes	No

Primary Dealer Credit Facility

	Existing Facility	***New Facility***
Criteria	**Discount Window Primary Credit**	**Primary Dealer Credit Facility**
Eligibility	Sound Banks	Primary Dealers
Interest Rate	Primary credit rate that is higher than the Fed funds rate	Primary credit rate
Maturity	Overnight unconditionally; Up to several weeks if funding is unavailable from other sources	Overnight
Collateral	Various banking assets	All collateral eligible for pledge in open market operations, plus various investment-grade securities, other than non-priced securities
Borrower Perception	Potential Stigma	?

List of the Primary Government Securities Dealers Reporting to the Government Securities Dealers Statistics Unit of the Federal Reserve Bank of New York

BNP Paribas Securities Corp.
Banc of America Securities LLC
Barclays Capital Inc.
Bear, Stearns & Co., Inc.
Cantor Fitzgerald & Co.
Citigroup Global Markets Inc.
Countrywide Securities Corporation
Credit Suisse Securities (USA) LLC
Daiwa Securities America Inc.
Deutsche Bank Securities Inc.
Dresdner Kleinwort Wasserstein Securities LLC.
Goldman, Sachs & Co.
Greenwich Capital Markets, Inc.
HSBC Securities (USA) Inc.
J. P. Morgan Securities Inc.
Lehman Brothers Inc.
Merrill Lynch Government Securities Inc.
Mizuho Securities USA Inc.
Morgan Stanley & Co. Incorporated
UBS Securities LLC.

TERM AUCTION FACILITY: Under the term auction facility (TAF), the Federal Reserve will auction term funds to depository institutions. All depository institutions that are eligible to borrow under the primary credit program will be eligible to participate in TAF auctions. All advances must be fully collateralized. Each TAF auction will be for a fixed amount, with the rate determined by the auction process (subject to a minimum bid rate). Bids will be submitted by phone through local Reserve Banks.

TERM SECURITY LENDING FACILITY: The New York Fed will provide Treasury general collateral financing though a weekly Term Securities Lending Facility (TSLF) to promote liquidity in Treasury and other collateral markets and thus foster the functioning of financial markets more generally. The program offers Treasury securities held by the System Open Market Account (SOMA) for loan over a one-month term against other program-eligible general collateral. Securities loans are awarded to primary dealers based on a competitive single-price auction held on Thursdays at 2:00 pm eastern standard time.

PRIMARY DEALER CREDIT FACILITY: The Federal Reserve Primary Dealer Credit Facility (PDCF) is an overnight loan facility that provides funding to primary dealers in exchange for a specified range of eligible collateral in accordance with the program terms and conditions. All terms and conditions are subject to change.

The Fed's Liquidity Tool Kit

	Discount Window	Term Auction Lending Facility (TAF)	Primary Dealer Credit Facility (PDCF)	Term Securities Lending Facility (TSLF)	Open Market Operations (OMO)
Facility Created*	1914	12-Dec-07	16-Mar-08	11-Mar-08	Mar-51
In Operation From	1914	17-Dec-07	17-Mar-08	27-Mar-08	1950s
First transaction settled	Unknown	20-Dec-07	17-Mar-08	28-Mar-08	Unknown
Who Borrows/Transacts with Fed	Depository institutions**	Depository institutions**	Primary dealers	Primary dealers	Primary dealers
Term of Loan/Transaction	Up to 90 days	28 days, fixed	Overnight	28 days, fixed	Up to 28 days
Collateral	Wide range, haircuts applied	Same as discount window	Investment grade securities	OMO list plus AAA-rated private-label MBS***	UST, agency securities, agency MBS
Format of Transaction	Individual loan at borrower's initiative	Loans auctioned every two weeks	Individual loan at borrower initiative	Loans auctioned every two weeks	Repurchase agreements daily
Interest rate	Fed funds plus 25 bp	Loan rate set by Dutch (single-price) auction	Same as discount rate	Fee set by Dutch (single-price) auction	Rate(s) set by Dutch auction (per type of collateral)
Fed lends	Money to borrower	Money to borrower	Money to borrower	Basket of UST collateral	Money to borrower
Reserve impact	Yes	Yes	Yes	No	Yes
Latest Change (date announced)	Term to 90 from 30 days; spread over funds to 25bp from 50 (Mar 16, '08)	Outstanding to $100bn from $60bn (Mar 7, '08)	Creation announced (Mar 16, '08)	Creation announced (Mar 11, '08)	Max term to 28 days from 14 (Mar 7, '08)
Maximum Amount	No specified limit	$100bn	No specified limit	$200bn	$100bn for 28-day RPs

* We take the Fed/Treasury Accord of March 1951 as the effective starting date for open-market operations.
** To qualify for primary credit and the TAF, institutions must meet certain capital and soundness requirements.
*** Private-label RMBS on review for downgrade are not eligible.
Source: Federal Reserve.

Forms of Federal Reserve Lending to Financial Institutions

	Regular OMOs	Single-Tranche OMO Program (announced March 7, 2008)	Discount Window[1]	Term Discount Window Program (announced August 17, 2007)	Term Auction Facility (announced December 12, 2007)	Primary Dealer Credit Facility (announced March 16, 2008)[2]	Securities Lending	Term Securities Lending Facility (announced March 11, 2008)
Who can borrow?	Primary dealers	Primary dealers	Depository institutions	Primary credit-eligible depository institutions	Primary credit-eligible depository institutions	Primary dealers	Primary dealers	Primary dealers
What are they borrowing?	Funds	Funds	Funds	Funds	Funds	Funds	U.S. Treasuries	U.S. Treasuries
What collateral can be pledged?	U.S. Treasuries, agencies, agency MBS	U.S. Treasuries, agencies, agency MBS	Full range of Discount Window collateral	Full range of Discount Window collateral	Full range of Discount Window collateral	U.S. Treasuries, agencies, agency MBS, investment grade debt securities[3]	U.S. Treasuries	U.S. Treasuries, agencies, agency MBS, AAA/Aaa-rated private-label RMBS and CMBS, agency CMO
Is there a reserves impact?	Yes	Yes	Yes	Yes	Yes	Yes	No (loans are bond-for-bond)	No (loans are bond-for-bond)
What is the term of loan?	Typically, term is overnight–14 days[4]	28 days[5]	Typically overnight, but up to several weeks[6]	Up to 90 days[7]	28 days[5]	Overnight	Overnight	28 days[5]
Is prepayment allowed if term is greater than overnight?	No	No	Yes	Yes	No	N/A	N/A	No
Which Reserve Banks conduct operations?	FRBNY	FRBNY	All	All	All	FRBNY	FRBNY	FRBNY
How frequently are operations conducted?	Typically once or more daily	Typically weekly	As requested	As requested	Every other week	As requested	Daily	Weekly
Where are statistics reported publicly?	Temporary OMO activity	Temporary OMO activity[8]	H.4.1 - Factors Affecting Reserve Balances	H.4.1 - Factors Affecting Reserve Balances	H.4.1 - Factors Affecting Reserve Balances	H.4.1 - Factors Affecting Reserve Balances	Securities lending activity	Term securities lending facility activity

[1] Discount Window includes primary, secondary and seasonal credit programs.

[2] The PDCF will remain in operation for a minimum period of six months and may be extended as conditions warrant.

[3] Investment grade debt securities include corporate securities, municipal securities, mortgage-backed securities and asset-backed securities.

[4] Open market operations are authorized for terms of up to 65 business days.

[5] 28-day term may vary slightly to account for maturity dates that fall on Bank holidays.

[6] Primary credit loans are generally overnight. Loans may be granted for term beyond a few weeks to small banks, subject to additional administration.

[7] Maximum maturity of term increased from 30 to 90 days on March 16, 2008.

[8] Data only available on days when 28-day term RP operations are conducted.

Forms of Federal Reserve Lending to Financial Institutions

	Regular OMOs	Single-Tranche OMO Program (announced March 7, 2008)	Discount Window[1]	Term Discount Window Program (announced August 17, 2007)	Term Auction Facility (announced December 12, 2007)	Primary Dealer Credit Facility (announced March 16, 2008)[2]	Securities Lending	Term Securities Lending Facility (announced March 11, 2008)
Who can borrow?	Primary dealers	Primary dealers	Depository institutions	Primary credit-eligible depository institutions	Primary credit-eligible depository institutions	Primary dealers	Primary dealers	Primary dealers
What are they borrowing?	Funds	Funds	Funds	Funds	Funds	Funds	U.S. Treasuries	U.S. Treasuries
What collateral can be pledged?	U.S. Treasuries, agencies, agency MBS	U.S. Treasuries, agencies, agency MBS	Full range of Discount Window collateral	Full range of Discount Window collateral	Full range of Discount Window collateral	U.S. Treasuries, agencies, agency MBS, investment grade debt securities[3]	U.S. Treasuries	U.S. Treasuries, agencies, agency MBS, AAA/Aaa-rated private-label RMBS and CMBS, agency CMO
Is there a reserves impact?	Yes	Yes	Yes	Yes	Yes	Yes	No (loans are bond-for-bond)	No (loans are bond-for-bond)
What is the term of loan?	Typically, term is overnight–14 days[4]	28 days[5]	Typically overnight, but up to several weeks[6]	Up to 90 days[7]	28 days[5]	Overnight	Overnight	28 days[5]
Is prepayment allowed if term is greater than overnight?	No	No	Yes	Yes	No	N/A	N/A	No
Which Reserve Banks conduct operations?	FRBNY	FRBNY	All	All	All	FRBNY	FRBNY	FRBNY
How frequently are operations conducted?	Typically once or more daily	Typically weekly	As requested	As requested	Every other week	As requested	Daily	Weekly
Where are statistics reported publicly?	Temporary OMO activity	Temporary OMO activity[8]	H.4.1 - Factors Affecting Reserve Balances	H.4.1 - Factors Affecting Reserve Balances	H.4.1 - Factors Affecting Reserve Balances	H.4.1 - Factors Affecting Reserve Balances	Securities lending activity	Term securities lending facility activity

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*page 4 has Fed summary

UBS Investment Research

US Economic Perspectives

Market Turmoil and Fed Policy

14 March 2008

www.ubs.com/economics

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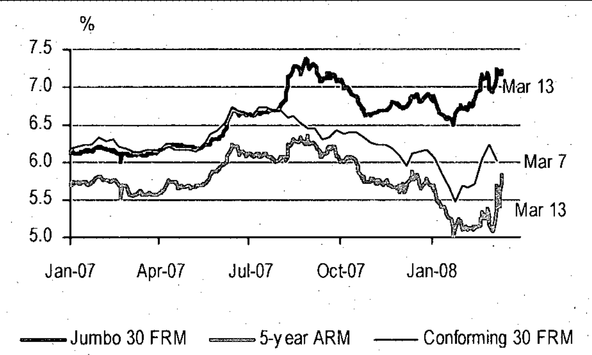
■ **"Fire-fighting" Fed**

The financial market dislocations and the business recession present the Fed with unprecedented challenges. On Friday, the NY Fed provided emergency funding for Bear Stearns via JP Morgan. Three days earlier, the Fed unveiled its Term Securities Lending Facility (TSLF), in an attempt to stem the spread of subprime mortgage market distress into other markets such as the prime mortgage-backed securities markets. However, even if the Fed's creative policy responses mitigate the financial market crises, the economy's basic problems remain. These are a still vast, deflationary overhang of vacant and unsold residential properties and the financial market repercussions of depressed nonprime mortgage-backed securities. The Fed's lifelines to Bear Stearns and to high-grade credit markets indicate the exceptionally low levels of investor confidence, which in turn has increasingly negative economic ramifications. In this setting, we still foresee the Fed trimming the fed funds rate by 75 basis points to 2¼% at its upcoming March 18 FOMC meeting and still expect subsequent reductions to 1½% this year.

■ **The week ahead**

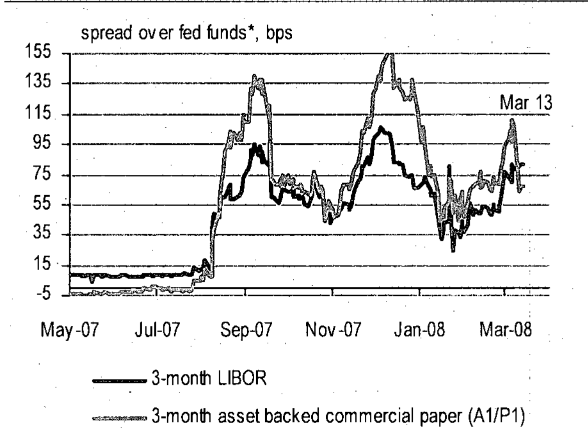
Financial markets and the Fed will likely be the main focus, but housing data especially could be important to perceptions of whether there is any fundamental basis for stabilization in markets soon. In the Homebuilders Survey, the housing market index had stabilized between the start of Q4 and the latest February data. The March reading takes on additional importance because of the further deterioration in the mortgage market. Housing starts and permits probably weakened further in February. For the February PPI, we forecast a 0.4% rise in the total, boosted by the food and energy components, but a moderate 0.2% rise in core finished goods prices after an above-trend 0.4% in January.

As the high-grade mortgage-backed securities markets became unhinged in early March, there was a sharp jump in home mortgage borrowing rates.



Source: *Wall Street Journal*, Freddie Mac, and Federal Reserve Board

Also in early March, key money market credit quality spreads widened again.



*Overnight index swaps (OIS), which reflect market expectations for the effective fed funds rate. Source: Federal Reserve Board and Bloomberg

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Term Securities Lending Facility (TSLF)

(announced on March 11, 2008)

The $200 billion Term Securities Lending Facility (TSLF) represented a significant expansion in the type of collateral allowed versus the Fed's SOMA (System Market Account) Securities Lending Program. The TSLF will lend Treasury securities to its 20 primary dealers, secured for a term of 28 days by a pledge of other securities, including Treasuries, Federal Agency debt, Agency MBS and non-Agency AAA-rated private label residential MBS. (Note: non-Agency collateral must not be on review for downgrade). Like the SOMA, the TSLF will utilize an auction process. TSLF auctions will be weekly, beginning on March 27, 2008.

Major differences for this new TSLF from the existing program (SOMA Securities Lending Program) are: (1) 28-day term (versus only overnight under SOMA); and 2) allowed collateral includes Agency debt, Agency MBS, non-Agency AAA-rated private label residential MBS and Treasuries (versus Treasury GC (General Collateral) under SOMA)

December: However, when the markets seized up again near yearend, the Fed responded on December 12 with establishment of the Term Auction Facility (TAF) program. It entails the Fed auctioning term funds to depository institutions. (See further details in accompanying exhibit on page 4.) And that seemed to work for a short while as key credit market quality spreads contracted again.

March: But more recently in March, some key financial markets again fell into disarray, with even conventional mortgage rates surging along with widening in other key spreads. (See accompanying chart). This time in response, the Fed on March 7 announced that the amounts outstanding in the TAF would be increased to $100 billion and also initiated a series of term repurchase transactions expected to cumulate to $100 billion. Subsequently on March 11, the Fed presented a new Term Securities Lending Facility (TSLF) to "lend up to $200 billion of Treasury securities to primary dealers secured for a term of 28 days (rather than overnight, as in the existing program) by a pledge of other securities, including federal agency debt, federal agency residential-mortgage-back securities (MBS), and non-agency AAA/Aaa-rated private-label residential MBS." (See further details in accompanying exhibit.)

Latest Fed lending program probably cannot prevent but might moderate further liquidity crises

The TSLF is in response to the latest liquidity breakdown in the wake of what has become an almost steady stream of unanticipated adverse developments for a variety of financial market participants and practices. Of course, the TSLF can hardly be expected to prevent the economic and financial sector surprises that ultimately trigger the loss of investor confidence and trust underlying a sudden liquidity crisis. However, the TSLF hopefully can moderate the extent to which liquidity dries up in response to unanticipated, adverse events. The twenty large security dealers covered by the program will be temporarily swapping what had become relatively illiquid collateral (e.g., prime mortgage-backed securities) for more liquid Treasury securities. By restoring some liquidity for the major securities dealers, they should be better able to serve as inventory buffers moderating the effects of event-driven securities sales on market prices.

One step forward but after one step backward

While a helpful response to the latest liquidity crises, the TSLF only gets liquidity back to where it was until very recently. Even when prime mortgage-backed securities, for instance, were more liquid just a short while ago, there were the still present nonprime mortgage market problems that keep dogging key financial institutions and the beleaguered residential real estate market.

What next?

In other words, *until the huge surplus of unsold and vacant residential real estate starts to be materially reduced with a related stabilization of the nonprime mortgage markets, we remain vulnerable to further event-driven liquidity crises, albeit perhaps not as severe as recently experienced.*

Proposed Congressional actions to stem foreclosures and improve nonprime mortgage markets

Two days after the Fed's unveiling of the TSLF program, the House Committee on Financial Services announced new legislative proposals aimed at stemming soaring mortgage foreclosures. A key feature is allowing the Federal Housing Administration (FHA) to insure and guarantee refinanced mortgages after they have been significantly written down by mortgage holders and lenders. While many details remain to be settled and Congressional and Presidential approval is hardly guaranteed, the anticipation of such plans already has raised hopes for lower foreclosures and lesser securities valuation uncertainty in the nonprime mortgage markets.

Addressing financial market strains is not substitute for needed fed funds rate reductions

Do actions like the Fed's TSLF program and the above described Congressional proposals mean that the Fed can do less easing than otherwise? When the Fed's plan was announced on March 11, there initially was some sentiment that the plan might enable the Fed at the March 18 FOMC meeting to trim the fed funds rate by 50 basis points instead of the 75 basis points that was being reflected in the fed funds futures contracts. However, we have maintained our call for a 75 basis point fed funds rate cut. In our view, the crises in the fixed-income credit markets and in the residential real estate market are so serious that the Fed and Congress must move aggressively on a number of fronts. As earlier stated, the very fact that the Fed had to address a breakdown of prime lending markets is a testament to how badly investor confidence and trust have been shaken.

Economy clearly needs more Fed rate relief

We believe that the latest batch of February economic data illustrate a significant further deterioration in economic conditions that should keep the FOMC on the "fast track" easing pace that it adopted in January. Most importantly, in February nonfarm payrolls fell by a sharp 63,000 and retail sales declined 0.6%. (See table on page 7 for a comparison of key economic and financial indicators going into the upcoming March 18 FOMC meeting and before the previous FOMC meeting on January 29-30.)

In the current real-estate-led recession, lower short-term interest rates can be even more helpful than normal as they reduce the mortgage re-set payment burden for those adjustable rate mortgage borrowers who are struggling to meet monthly mortgage payments. (Note: In Q4(07) just over 40% of total foreclosure starts were on residential units financed with subprime ARMS.) They are more vulnerable to default and subsequent foreclosure—an important element in the home price declines that currently are dogging the economy. (For more details, see the related discussion on pp. 12-13 in the March 7, 2008 edition of *US Economic Perspectives.*)

Data and Markets Before January 29-30 and March 18 FOMC Meetings

	January 29-30 FOMC meeting				March 18 FOMC meeting				What has changed?
Quarterly data	**07Q1**	**07Q2**	**07Q3**	**07Q4**	**07Q1**	**07Q2**	**07Q3**	**07Q4**	
Real GDP (%q/q, ar)	0.6	3.8	4.9	0.6	0.6	3.8	4.9	0.6	Unchanged
Productivity (%y/y)	0.4	0.7	2.7		0.6	0.9	2.9	2.9	Bit stronger
Unit labor costs (ULC) (%y/y)	4.3	4.2	3.0		4.3	4.3	2.8	0.9	Weaker
Employment cost index, wages (%y/y)	3.6	3.4	3.3		3.6	3.4	3.3	3.4	Little change
OFHEO home price index, purchase only (%y/y)	3.5	2.8	1.8		3.3	2.9	1.9	-0.3	Weaker
S&P/Case-Shiller national home price index (%y/y)	-1.7	-3.3	-4.5		-1.7	-3.4	-4.6		Much weaker
Monthly data	**Oct**	**Nov**	**Dec**	**Jan**	**Dec**	**Jan**	**Feb**	**Mar**	
Payrolls (ch, 000s)	159	115	18		41	-22	-63		Much weaker
Unemployment rate (%)	4.8	4.7	5.0		5	4.9	4.8		Down a bit
Capacity utilization, manufacturing (%)	79.8	79.8	79.7		79.8	79.7			Unchanged
Manufacturing ISM index	50.9	50.8	47.7		48.4	50.7	48.3		Much weaker
Non-manufacturing ISM business activity index	55.8	54.1	53.9		54.4	41.9	50.8		Weaker
Ex-auto retail sales (%m/m)	0.2	1.7	-0.4		-0.5	0.5	-0.2		Weaker
Light vehicle sales (mil, ar)	16.0	16.2	16.2		16.2	15.3	15.3		Weaker
Conference Board confidence (index)	95.2	87.8	88.6		90.6	87.3	75.0		Weaker
University of Michigan sentiment (index)	80.9	76.1	75.5	80.5	75.5	78.4	70.8		Weaker
Housing market index	19	19	18	19	18	19	20		Little change
Median existing home sale prices (%y/y)	-5.5	-4.0	-6.0		-6.6	-4.6			Little change
S&P/Case-Shiller composite 20 home price index (%y/y)	-6.1	-7.7			-9.1				Weaker
Orders for nondefense capital goods ex aircraft (%m/m)	-3.0	-0.2	4.4		5.2	-1.5			Weaker
Core PCE prices (%m/m)	0.2	0.2			0.2	0.3			Slightly stronger
Core PCE prices (%y/y)	2.0	2.2			2.2	2.2			
Core CPI (%m/m)	0.2	0.3	0.2		0.2	0.3	0.0		Slightly softer
Core CPI (%y/y)	2.2	2.3	2.4		2.4	2.5	2.3		
Michigan inflation expectations (%): 5-10 years	2.8	2.9	3.1	3.0	3.1	3.0	3.0	2.9	Slightly softer
Average hourly earnings (AHE) (%y/y)	3.7	3.8	3.7		3.7	3.7	3.7		Unchanged
Core finished PPI (%m/m)	0.0	0.4	0.2		0.2	0.4			Stronger
Manufacturing ISM price index	63.0	67.5	68.0		68.0	76.0	75.5		Stronger
Weekly data	**-8 wks**	**-4 wks**	**Jan 19**		**-8 wks**	**-4 wks**	**Mar 8**		
Jobless claims (000s, 4-wk avg)	336	345	315		328	350	359		Higher (weaker)
Mortgage applications purchase index (4-wk avg)	418	438	419		408	403	362		Limited info value lately
Daily markets	**-8 wks**	**-4 wks**	**Latest**		**-8 wks**	**-4 wks**	**Latest**		
S&P 500	1485	1447	1362		1325	1350	1288		Down sharply
10-year Treasury yield (%)	3.92	3.91	3.69		3.66	3.76	3.47		Down sharply
Corporate bond spread (bp, Moody's Baa vs. 20-year Tsy)	208	206	228		223	235	253		Up
3-month LIBOR expected fed funds (OIS) spread (bp)	105	69	32		42	53	82		Up sharply
High yield corporate bond spread (bp, KDP series)	462	487	542		562	587	646		Up sharply
Crude oil (WTI, $/bbl)	88	100	92		91	96	110		Up sharply
CRB spot commodities price index, raw industrials	501	504	504		505	516	544		Up sharply
Nominal broad trade-weighted dollar (index)	99.1	98.4	97.9		99.0	98.0	95.4		Weaker

Source: Labor Department, Institute for Supply Management, Federal Reserve Board, Commerce Department, The Conference Board, University of Michigan, National Association of Home Builders, Mortgage Bankers Association, Standard & Poor's, Fiserv, MacroMarkets LLC, Nasdaq, *The Wall Street Journal*, National Association of

Realtors, OFHEO, KDP Investment Advisors, and CRB .

What can the Fed say or do about inflation?

Although addressing the evolving recession and ongoing credit market disturbances are the Fed's top priorities, policymakers continue to express concern about inflation. The latest 2.2% 12-month change in core PCE inflation through January is a bit over the top of the Fed's 1% to 2% "comfort zone." To be sure, we agree with those FOMC members who have stated that core inflation is a lagging indicator trailing economic conditions. (See accompanying chart.)

Nevertheless, with raging energy prices and firmer food prices, we also share their natural concern about overall price inflation. However, we believe that the FOMC will again conclude that the economic and financial market problems take precedence in determining the Fed's near-term actions with regard to the fed funds rate.

In this setting, we think the Fed will repeat what it said about inflation in the FOMC statement following the previous FOMC meeting on January 29-30. (See accompanying exhibit.) The specific reference was as follows: "The Committee expects inflation to moderate in coming quarters, but it will be necessary to continue to monitor inflation developments carefully."

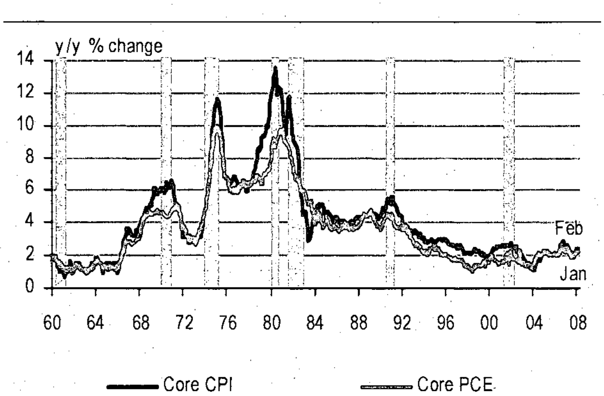
Are consumers as "uptight"about inflation as TIPS market?

Of course, the Fed's thoughts on inflation are conditioned, in part, by the public's inflation expectations. In the TIPS market, such expectations have been rising with the latest explosion in oil prices. However, the 5-10 year ahead overall CPI inflation expectations in the early March University of Michigan survey slipped to the bottom of its usual 2.9% to 3.1% range. (See accompanying chart.)

Fed's attempted *restoration* of liquidity should not be inflationary

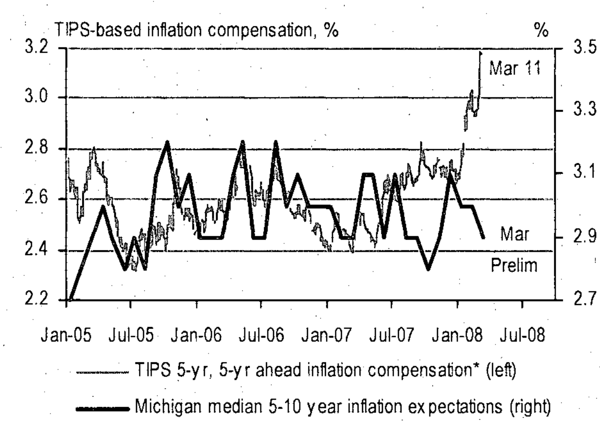
As the "fire-fighting" Fed addresses the ongoing credit market conflagrations with its various new "liquidity enhancement" programs, is it not also "fueling the fires" of future inflation? Our answer is "probably not."

Core inflation is a lagging indicator, invariably slowing after recessions.



Note: Shaded areas denote periods of recession. Source: Bureau of Labor Statistics and Bureau of Economic Analysis

At 2.9% in early March, long-term inflation expectations in the Michigan survey were a tad under the 3.0% average in both 2006 and 2007. Treasury Inflation-Protected Securities (TIPS) have shown an increase in break-even inflation rates, although, as discussed in a recently released Fed staff working paper*, factors other than inflation expectations can influence those calculations.



* "The TIPS Yield Curve and Inflation Compensation", February 2008, by Fed economist Jonathan Wright and former Fed economists Refet Gurkaynak and Brian

Sack. **Estimated by Eric Liverance, UBS fixed income strategist.
Source: University of Michigan, Federal Reserve, and UBS

The Fed's actions are aimed at *restoring* the liquidity that has been effectively withdrawn by "shell-shocked" market participants lacking their usual degree of confidence and trust. Liquidity is the ability to transact. It is a state of mind on the part of market participants and will always be subject to cycles.

And liquidity is not the money supply—an often cited cause of inflation. One way to see this is to recognize that the Fed's sizable new liquidity enhancement programs have not been accompanied by much expansion of total Fed credit outstanding. Rather, the Fed's liquidity enhancement efforts have reflected targeting of liquidity to the especially "needy" sectors of the financial markets. Thus, as the Fed's TAF credit facility has expanded, the Fed has been simultaneously selling securities from its portfolio. (See accompanying exhibits.)

FOMC statement: January 30, 2008

The Federal Open Market Committee decided today to lower its target for the federal funds rate 50 basis points to 3 percent.

Financial markets remain under considerable stress, and credit has tightened further for some businesses and households. Moreover, recent information indicates a deepening of the housing contraction as well as some softening in labor markets.

The Committee expects inflation to moderate in coming quarters, but it will be necessary to continue to monitor inflation developments carefully.

Today's policy action, combined with those taken earlier, should help to promote moderate growth over time and to mitigate the risks to economic activity. However, downside risks to growth remain. The Committee will continue to assess the effects of financial and other developments on economic prospects and will act in a timely manner as needed to address those risks.

Voting for the FOMC monetary policy action were: Ben S. Bernanke, Chairman; Timothy F. Geithner, Vice Chairman; Donald L. Kohn; Randall S. Kroszner; Frederic S. Mishkin; Sandra Pianalto; Charles I. Plosser; Gary H. Stern; and Kevin M. Warsh. Voting against was Richard W. Fisher, who preferred no change in the target for the federal funds rate at this meeting.

In a related action, the Board of Governors unanimously approved a 50-basis-point decrease in the discount rate to 3-1/2 percent. In taking this action, the Board approved the requests submitted by the Boards of Directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Atlanta, Chicago, St. Louis, Kansas City, and San Francisco.

Board of Governors of the Federal Reserve System
Press Release
Release Date: March 14, 2008

For immediate release

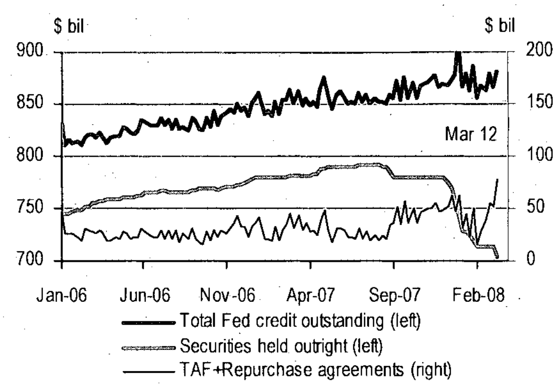
The Federal Reserve is monitoring market developments closely and will continue to provide liquidity as necessary to promote the orderly functioning of the financial system. The Board voted unanimously to approve the arrangement announced by JPMorgan Chase and Bear Stearns this morning.

Fed officials have recently announced further plans to enhance liquidity. The funds will largely be offset elsewhere on the Fed's balance sheet. That trend is already under way, with a sharp drop in securities held outright following the introduction of the TAF program in December.

billions of dollars	Dec 31, 2006	Aug 1, 2007	Mar 12, 2008	Ch from Aug 1
Total Fed credit outstanding	855	856	882	26
Securities held outright	779	791	703	-87
Repurchase agreements	36	25	77	52
TAF credit	–	–	60	60
Discount window lending	0.5	0.2	0	-0.2
Other	40	40	41	1.3

Source: Federal Reserve

Total Fed credit outstanding was up 2 % y/y in the latest week, with a surge in lending through TAF and repo operations offset by a 10% decline in securities held outright.



Source: Federal Reserve

Maury Harris

UBS U.S. Economic Forecasts: What and Why?

Recent Forecast Changes

- We now forecast a 75 bps cut in the funds rate at the March 18 FOMC meeting (to 2.25%), with the level down to 1.5% by August (instead of 2.00%).

"Bottom Line" on UBS U.S. Economic Forecasts

- The major rationale for a recession forecast is the housing recession and its increasingly negative nonfinancial sector spread effects, as lately evidenced by relatively lower business confidence measures.
- The rationale for a less severe than normal recession is likely timely declines in Federal tax payments and significant inventory cutting looks limited.
- Growth improves in H2(08) and 2009 in response to the start of a housing recovery and a lessening of the credit crunch.
- 5¼% Fed funds peak followed by easing to 1.5%.
- Core PCE price index inflation slows from 2.2% y/y currently to 1.6% in 2008 (Q4/Q4) and 1.3% in 2009.

Growth Forecast Fundamentals

- Recession forecast reflects declines in consumption and capex as well as the ongoing residential real estate slump.
- Exports assisted somewhat by soft dollar.

Major Growth Risks

- Housing-related uncertainty following unprecedented boom.
- Duration of credit crunch.

Key Growth Signposts

- Unsold home inventories
- Employment-based Federal tax receipts

Core Inflation Forecast Drivers

- UBS leading inflation index should ease in 2008
- Owners' Equivalent Rent (OER) to slow further
- Moderating wage inflation as unemployment rises
- Slower output and demand growth
- Oil and commodities prices ease as growth slows

Rate Forecast Drivers

- Fed funds rate easing to 1.5% "data dependent" on sustained slowing in growth raising unemployment rate to 6.0%.
- Fed and investors foresee core PCE inflation remaining within the Fed's 1%-2% preference range.
- Foreign savings help real bond yields remain below normal, although such assistance is diminishing.

Forecasts versus Blue Chip Consensus

- Our calendar average 2008 forecast of 0.8% real GDP growth is 70 basis points under the latest early March Blue Chip consensus projection. Our 3.2% 2008 CPI forecast is 20 basis points less than consensus.

Positions on Some Key Controversies

- *National median existing home sales prices are expected to post around a 15% peak-to-trough decline in the current housing recession.* The key reason is the very sharp earlier buildup in vacant and unsold housing units.
- *Low home prices and improved affordability should start to stimulate home sales somewhat by H2.* Lending standards should remain elevated, but more borrowers should qualify as lower prices reduce borrowing needs versus incomes.
- *Labor costs are not seriously pressuring prices.* Average hourly earnings and hourly overall compensation gains can overstate wage inflation partly due to job mix shift effects, which do not affect the more moderately rising Employment Cost Index (ECI). It is more closely correlated to core PCE inflation.
- *Somewhat less U.S. reliance on foreign savings.* U.S. current account deficit/GDP expected to fall to 3.9% in 2008 and around 3.5% in 2009, spelling somewhat lesser recycling of surplus dollars into U.S. fixed-income markets. (At the same time, though, U.S. credit needs should slow with more subdued household spending, especially on housing.) Lower dollar could mean somewhat more U.S. reliance on foreign central bank recycling of surplus dollars. However, prospective bond price gains could preclude sharp drop in private inflows.
- More energy "demand destruction" should eventually follow relatively high oil prices. Over the longer run, U.S. energy consumption as a percent of GDP has been falling—a reminder that energy savings adjustments can and do occur.

U.S. GDP, Interest Rate, and Inflation Forecasts

Percent change, seasonally adjusted at annual rates, except where noted, as of 3/14/2008

	2007		2008				Annual change			4Q/4Q change		
	3QA	4QA	1QE	2QE	3QE	4QE	2007A	2008E	2009E	2007A	2008E	2009E
Real GDP (Chain)	**4.9**	**0.6**	**-1.0**	**-1.5**	**1.5**	**2.8**	**2.2**	**0.8**	**2.6**	**2.5**	**0.4**	**3.2**
Personal consumption expenditures	2.8	1.9	-1.0	-2.0	2.0	3.0	2.9	0.6	2.6	2.5	0.5	3.0
Durable goods	4.5	2.3	-8.1	-7.0	1.5	1.6	4.7	-2.1	1.0	4.3	-3.1	1.6
Nondurable goods	2.2	1.4	-0.1	-4.0	2.0	3.1	2.4	0.1	2.5	1.5	0.2	3.1
Services	2.8	2.1	-0.2	-0.1	2.1	3.2	2.8	1.3	2.8	2.6	1.2	3.2
Fixed investment	-0.7	-3.5	-8.6	-8.1	-3.2	-0.5	-2.9	-4.7	1.9	-1.4	-5.2	4.7
Business fixed investment	9.3	6.9	-1.9	-3.3	-0.9	-0.9	4.8	1.7	0.6	7.3	-1.7	1.8
Equipment & software	6.2	3.3	-4.0	-5.0	0.0	0.0	1.3	-0.3	2.2	3.6	-2.3	4.0
Structures	16.4	14.7	2.5	0.0	-2.5	-2.5	13.1	6.1	-2.3	15.7	-0.6	-2.5
Residential	-20.5	-25.2	-24.5	-20.5	-10.0	0.5	-17.0	-19.6	5.8	-18.6	-14.2	13.7
Government purchases	3.8	2.2	2.0	1.7	2.0	1.5	2.0	2.3	1.8	2.4	1.8	1.8
Federal	7.1	0.9	3.0	2.0	3.0	1.5	1.7	3.0	1.7	1.8	2.4	1.5
State & Local	1.9	3.0	1.5	1.5	1.5	1.5	2.2	1.9	1.8	2.7	1.5	2.0
Net exports ($ bil.)	-533	-507	-479	-446	-441	-448	-556	-453	-469	-507	-448	-482
Exports	19.1	4.8	5.0	5.0	5.0	5.0	8.0	6.8	5.4	7.9	5.0	5.7
Imports	4.4	-1.9	-2.0	-3.0	2.8	5.3	1.9	-0.4	5.0	0.9	0.7	6.1
Change in inventories ($ bil)	31	-10	-18	-27	-27	-7	7	-20	18	-10	-7	33
Real domestic purchases	3.3	-0.3	-1.8	-2.5	1.3	2.9	1.5	-0.1	2.6	1.6	-0.1	3.3
Final sales	4.0	2.1	-0.7	-1.2	1.5	2.1	2.5	1.0	2.3	2.7	0.4	2.8
Domestic final sales	2.5	1.2	-1.6	-2.2	1.3	2.2	1.8	0.1	2.3	1.9	-0.1	3.0
Net exports contribution (pct pts)	1.4	0.9	0.9	1.0	0.2	-0.2	0.6	0.9	-0.1	0.8	0.5	-0.3
Inventory contribution (pct pts)	0.9	-1.5	-0.3	-0.3	0.0	0.7	-0.3	-0.2	0.3	-0.3	0.0	0.3
Nominal GDP	6.0	3.3	0.8	0.3	3.3	4.6	4.9	2.7	4.4	5.2	2.2	5.0
Key business indicators												
FRB industrial production index	3.6	-1.0	-4.4	-5.6	0.3	2.9	1.9	-1.5	2.6	1.8	-1.8	3.7
Capacity utilization rate (%, level)	82.0	81.5	80.1	78.4	78.0	78.1	81.6	78.7	78.7	81.5	78.1	79.0
Civilian unemployment rate (%, level)	4.7	4.8	4.9	5.4	5.8	6.0	4.6	5.5	5.8	4.8	6.0	5.8
Housing starts (millions)	1.30	1.15	1.00	0.95	0.95	1.00	1.34	0.98	1.18	1.15	1.00	1.25
Current account balance (% of GDP)	-5.1	-5.1	-4.7	-3.8	-3.7	-3.5	-5.4	-3.9	-3.5	-5.1	-3.5	-3.5
Inflation												
GDP Chain Price Index	1.0	2.7	1.8	1.9	1.8	1.8	2.7	1.9	1.8	2.6	1.8	1.8
CPI-U	2.8	5.0	4.3	1.6	3.1	-2.5	2.9	3.2	1.8	4.0	1.6	2.2
Core CPI-U	2.5	2.5	2.6	1.8	1.8	1.6	2.3	2.2	1.7	2.3	1.9	1.6
PCE Chain Price Index	1.8	4.1	3.6	1.5	2.5	-0.7	2.6	2.7	1.9	3.4	1.7	2.1
Core PCE Chain Price Index	2.0	2.7	2.3	1.5	1.5	1.3	2.1	2.0	1.4	2.1	1.7	1.3
Market-based core PCE Price Index	1.5	2.3	2.1	1.3	1.3	1.1	1.9	1.7	1.2	1.9	1.5	1.1
PPI-finished goods	1.6	9.2	4.8	1.0	3.3	-4.2	3.9	4.0	2.0	6.8	1.2	2.5
Income indicators												
Average hourly earnings	4.0	2.9	3.4	3.4	3.3	3.2	4.0	3.4	3.1	3.8	3.3	3.0
Nonfarm business compensation	3.4	4.6	3.8	3.8	3.7	3.6	4.9	3.7	3.5	3.9	3.7	3.4
Employment cost index	3.1	3.4	3.2	3.2	3.1	3.0	3.4	3.2	2.9	3.3	3.1	2.8
Real disposable income	4.0	-0.3	-1.2	8.5	2.5	-0.8	3.0	1.9	1.9	2.1	2.2	2.5
Saving rate (%, level)	0.4	0.0	0.0	2.5	2.6	1.7	0.4	1.7	1.0	0.0	1.7	1.2
Memo: Nonfarm business productivity	6.3	1.9	-0.2	-0.5	1.1	1.8	1.8	1.4	1.7	2.9	0.5	2.0
Federal budget balance ($ bil, FY)							-163	-400	-400			
% of fiscal year GDP							-1.2	-2.8	-2.7			

Source: Department of Commerce, Federal Reserve Board, Bureau of Labor Statistics, Treasury Department, and UBS estimates

Interest rates

Percent	2007		2008				Annual averages			End of period		
	3QA	4QA	1QE	2QE	3QE	4QE	2007A	2008E	2009E	2007A	2008E	2009E
Federal funds rate	4.75	4.25	2.25	1.75	1.50	1.50	5.05	2.09	1.56	4.25	1.50	2.00
2-year government notes	4.0	3.1	1.6	1.5	1.7	1.9	4.4	1.8	2.3	3.1	1.9	2.8
10-year government notes	4.6	4.0	3.4	3.5	3.7	3.9	4.6	3.6	4.2	4.0	3.9	4.5

Note: Quarterly forecasts are for end of period yields.

Source: Federal Reserve Board and UBS estimates

The Week Ahead

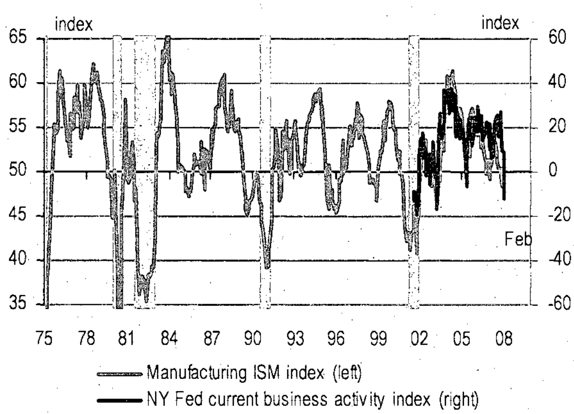
N.Y. Fed "Empire State" Manufacturing Survey (C/L[1]) (Mon, Mar 17, 8:30 am)

	History			Mar forecast	
	Dec	Jan	Feb	Market	UBS
Current activity (C)	9.8	9.0	-11.7	-7.4	-15.0
New orders (L)	13.2	0.0	-11.9		
Employment (C)	5.0	2.4	-2.1		
Prices paid (L)	35.0	40.2	47.4		
Prices received (C)	12.5	18.3	17.9		
6-month outlook (L)	34.7	19.4	22.7		
6-month capex (L)	23.8	23.2	16.8		
UBS NY index*	6.7	1.7	-3.8		

*Composite based on manufacturing ISM weights (with shipments used as a proxy for production). Source: NY Federal Reserve, Bloomberg, and UBS estimates

The Empire State current activity index will probably again signal weakening. We forecast a further decline in the index in March after the plunge in February. In February, the level of the index was roughly consistent with the national ISM index; the Philadelphia Fed current activity index appeared much weaker (see chart on page 18).

The Empire State manufacturing current activity index and the national manufacturing ISM index signaled weakening in February. The ISM index has not fallen as far as in earlier recessions, consistent with the current slowdown being led by the housing and financial sectors rather than by manufacturing.



Source: Federal Reserve System and Institute for Supply Management

[1]To the extent possible, we identified reports as coincident (C), leading (L), and lagging (Lg) indicators of economic growth. These labels are typically applied at business cycle turning points, and some reports can have different lead characteristics at peaks and troughs. Also, different parts of the same report can have different characteristics. Our labels are intended to capture tendencies early in recoveries and are analogous to the labels at business cycle troughs. Reports without a clear tendency have been labeled "undetermined" (U).

Current Account (Mon, Mar 17, 8:30 am) (U)

	History			07Q4 forecast	
	07Q1	07Q2	07Q3	Market	UBS
Balance ($bil, quarterly rate)	-197.1	-188.9	-178.5	-183.8	-182.0
% of GDP	-5.8	-5.5	-5.1		-5.2
Financing ($bil, quarterly rate)					
US investors (— = outflow)	-449.5	-465.5	-155.7		
Direct investment	-81.4	-78.0	-56.3		
Foreign securities	-87.2	-82.2	-78.8		
Other private	-281.2	-304.9	-21.0		
Foreign investors (+ = outflow)	616.6	619.3	249.1		
Foreign official	152.2	70.5	39.0		
U.S. Gov't Securities	110.8	43.3	17.8		
Treasury Securities	37.7	-13.1	-11.5		
Other	73.1	56.4	29.4		
Private	464.4	548.8	210.1		
Direct investment	11.9	46.6	81.2		
U.S. Treasury securities	44.6	1.8	46.7		
Other U.S. securities	112.3	243.0	-44.2		
Other U.S. liabilities	297.2	254.1	121.6		

Source: Bureau of Economic Analysis, Bloomberg, and UBS estimates

The current account deficit appears to have widened marginally in Q4, led by slower export growth and continued upward pressure on nominal imports from higher oil prices. At an estimated 5.2% of GDP, the deficit would still be down sharply from 5.6% a year earlier and a peak of 6.8% two years earlier.

Treasury International Capital System (TICS) (U) (Mon, Mar 17, 9:00 am)

$bil, NSA	Oct	Nov	Dec	Jan
Total net inflows (including short-term securities)	89.7	150.8	60.4	
Net foreign acquisition of long-term securities	98.9	79.7	45.2	
Net long-term securities transactions	**113.9**	**90.9**	**56.5**	
Net foreign purchases* U.S. residents	-4.1	20.6	-12.6	
Net purchases by non-U.S. residents	118.0	70.3	69.1	
Treasury bonds & notes	49.8	23.5	1.4	
Agency bonds	14.9	26.6	-3.3	
Corporate bonds	23.1	15.4	37.5	
Equities	30.2	4.8	33.5	
Other acquisitions of long-term securities**	-15.1	-11.2	-11.3	
Increase in foreign holdings of short-term securities	30.3	37.2	34.2	
Treasury bills	9.0	15.6	15.5	
Change in banks' net liabilities	-39.4	34.0	-19.0	

*Negative sign denotes outflow. **Including adjustments for ABS, stock swaps, and nonmarketable Treasuries. Source: Treasury Department

The TICS data showed a slight drop in net purchases of long-term securities by non-US residents in December. Sharp declines in net purchases of Treasuries and Agencies were mostly offset by increased net purchases of corporates and equities. US residents were net buyers of foreign securities in December, after net selling in November.

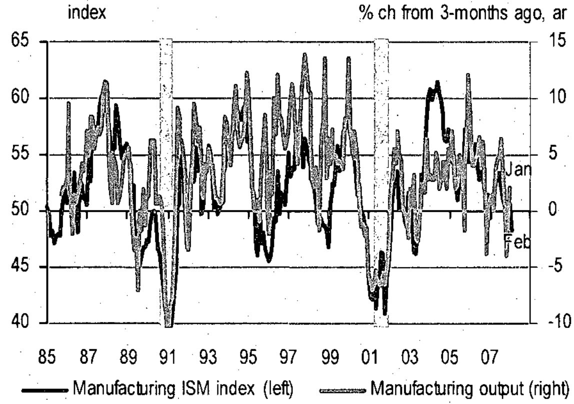
Industrial Production (C) (Mon, Mar 17, 9:15 am)

	History			Feb forecast	
	Nov	Dec	Jan	Market	UBS
Total IP (%m/m)	0.4	0.1	0.1	-0.1	0.0
Manufacturing	0.3	0.2	0.1		-0.2
High-tech	1.3	1.0	1.8		
Ex high-tech	0.2	0.1	0.0		
Manufacturing ex autos	0.2	0.2	0.2		-0.2
Total IP (%y/y)	2.2	1.7	2.2		1.5
Manufacturing	2.2	1.3	2.0		1.8
High-tech	17.4	17.3	18.7		
Ex high-tech	1.2	0.3	1.0		
Capacity utilization (%)	81.5	81.5	81.5	81.2	81.4
Manufacturing	79.8	79.8	79.7		79.4

Source: Federal Reserve Board, Bloomberg, and UBS estimates

Total industrial production was probably boosted in February by a rise in utility output. Manufacturing output likely fell, although it has not yet been nearly as weak as in past recessions; the manufacturing ISM index shows a similar pattern (see chart). The current recession, led by the housing and financial sectors, is unlikely to show the usual drag from inventories. And with less of an inventory swing, the degree of weakness in manufacturing will likely be less. Still, as demand fades, we expect further weakening in manufacturing in coming months.

The manufacturing ISM index has signaled weakening. With the current downturn led by housing and financial sectors, the degree of weakness in manufacturing has so far been less than at the start of past recessions.



Note: Shaded areas mark recession. Source: Federal Reserve Board and Institute for Supply Management

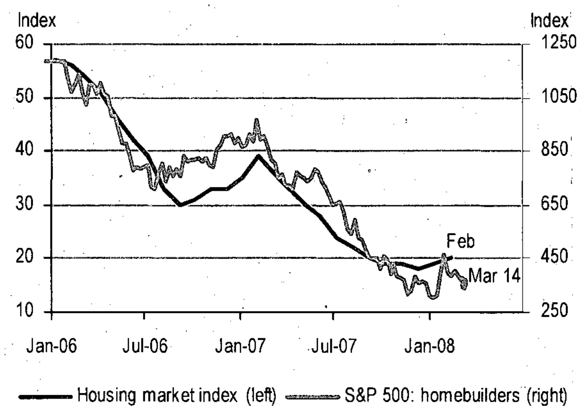
Homebuilders Survey (L) (Mon, Mar 17, 1:00 pm)

	History			Mar forecast	
	Dec	Jan	Feb	Market	UBS
Housing market index	18	19	20	20	20

Source: National Association of Homebuilders, Bloomberg, and UBS estimates

The housing market index (HMI) has stabilized since the start of Q4, although the last six readings have been the lowest in the history of the index, which dates back to 1985. We expect the index was unchanged in March. Homebuilders' stock prices have risen from the early-January lows, but, even so, are down about 9% from the Q4 average and 35% from the Q3 average. Meanwhile, recession fears are likely dampening builders' expectations for home sales in coming months.

The S&P 500 homebuilding index has risen about 17% from its recent low. Even so, the index is still down 8% from the Q4 average and 34% from the Q3 average.



Source: National Association of Homebuilders and Standard and Poor's

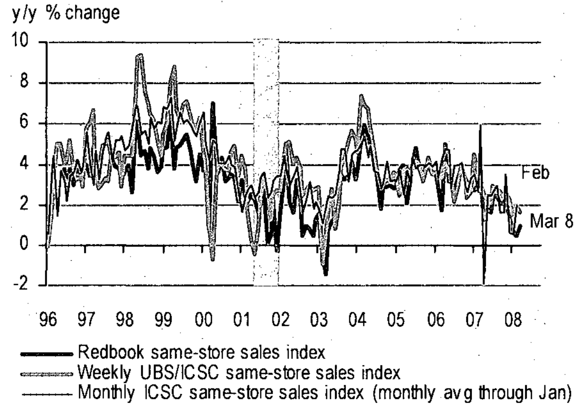
Weekly Store Sales (C) (Tue, Mar 18)

fiscal months for retailers	% ch, w/w	% ch, m/m		% ch, y/y		
		UBS/ ICSC	Redbook	UBS/ ICSC	Redbook	ICSC
Dec		1.5	-0.7	2.3	1.3	0.7
Jan		0.9	-0.4	1.4	0.5	0.5
Feb		0.2	-1.3	2.0	0.7	1.9
Mar thru Mar 8		0.1	1.6	1.6	1.0	
Mar thru Mar 15						
Weekly: Feb 23	0.5			2.3	0.4	
Mar 1	-0.6			2.1	0.1	
Mar 8	0.3			1.6	1.0	
Mar 15						

Source: UBS, International Council of Shopping Centers, and Instinet

The weekly UBS/ICSC index as well as the broader monthly ICSC index accelerated in February on a y/y basis. The pattern appears to have been due in part to an easy comparison: The somewhat comparable GAFO component of the government's retail sales report rose 1.3% m/m in February 2007. (The GAFO component includes general merchandise, apparel, furniture, and a few other types of stores.) The y/y pace in the Redbook index, up 0.7% y/y, was little changed from January and showed weakening relative to late 2007.

The pickup in the y/y pace in the weekly UBS/ICSC and monthly ICSC indexes in February was likely due in part to an easy comparison, with the somewhat comparable GAFO component of the government's retail sales report down 1.3% m/m in February 2007.



Note: Shaded area marks recession.
Source: International Council of Shopping Centers and Instinet

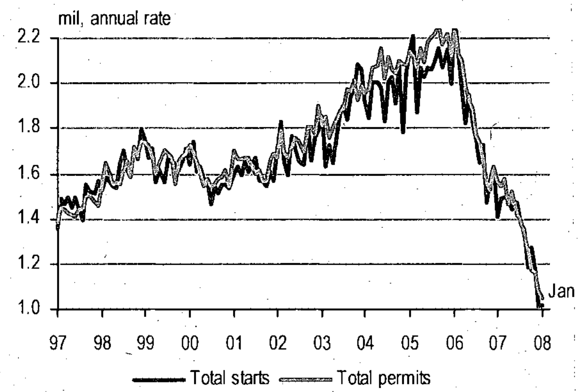
Housing Activity (L) (Tue, Mar 18, 8:30 am)

	History			Feb forecast	
	Nov	Dec	Jan	Market	UBS
Starts (mil, saar)	1.178	1.004	1.012	0.995	0.990
1-unit structures	0.816	0.784	0.743		
Multi-unit structures	0.362	0.220	0.269		
Permits (mil, saar)	1.162	1.080	1.061	1.020	1.030
1-unit structures	0.770	0.702	0.681		
Multi-unit structures	0.392	0.378	0.380		

Source: Bureau of the Census, Bloomberg, and UBS estimates

Housing starts rose slightly in January, lifted by a 22% m/m rebound in multi-family starts after a 39% plunge in December. Multi-family starts can be volatile. Meanwhile, single-family starts fell 5% m/m in January. We project that they continued to trend lower in February, consistent with further weakening in permits and home sales, excess inventories, a near-record low housing market index, and tight lending standards.

Housing starts and permits have plunged.



Source: Bureau of the Census

Producer Price Index (Lg) (Tue, Mar 18, 8:30 am)

	History			Feb forecast	
	Dec	Nov	Jan	Market	UBS
Finished goods (%m/m)	2.6	-0.3	1.0	0.3	0.4
Core (ex food & energy)	0.3	0.2	0.4	0.2	0.2
Core intermediate (%m/m)	1.0	0.0	0.8		0.5
Core crude (%m/m)	0.2	0.2	4.0		1.5
Finished goods (%y/y)	7.2	6.3	7.4		6.8
Core (ex food & energy)	2.0	2.0	2.3		2.1
Core intermediate (%y/y)	3.3	3.3	4.1		4.6
Core crude (%y/y)	18.7	16.8	20.9		18.5

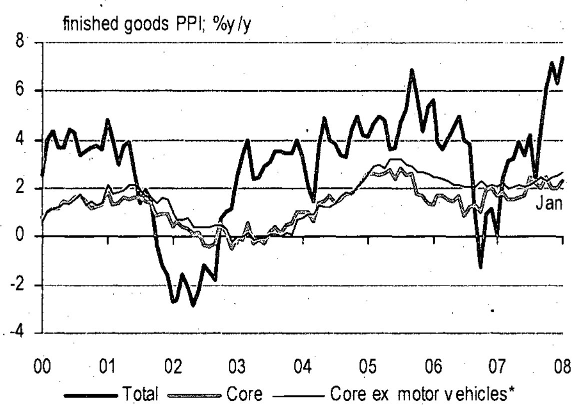
Source: Bureau of Labor Statistics, Bloomberg, and UBS estimates

The overall finished goods PPI was probably boosted slightly by the food and energy components in February. Core finished goods prices probably rose modestly after a sharp rise in January.

There has been a tendency for above-trend gains in core finished goods prices in January in recent years. Gains have tended to move toward trend in February. (See chart below.) Last year was an exception—in January 2007, weakness in motor vehicles prices offset strength elsewhere. In 2006, core prices rose 0.5% m/m in January, 0.3% in February, and 0.1% per month on average for the remainder of the year. In 2005, prices rose 0.6% in January, slowed to 0.0% in February, and then averaged 0.1%.

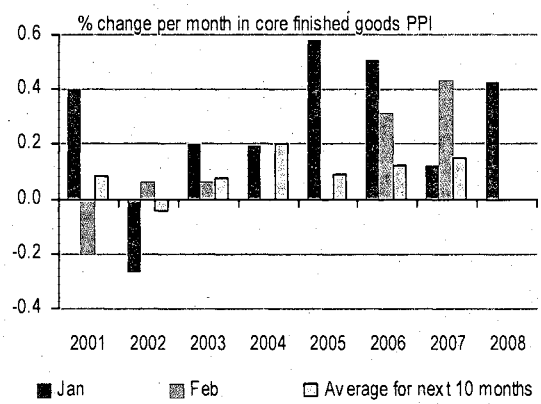
The pattern of larger gains in January is consistent with firms testing pricing power at the start of the year. Each time, however, the pickup has not been sustained.

The overall finished goods PPI has accelerated sharply in recent months, led by food and energy. The trend in core finished goods prices has been more stable, although, excluding motor vehicles, the pace has picked up a bit. The 0.4% m/m rise in core finished goods prices in January most likely overstates the trend.



* Estimated by UBS. Source: Bureau of Labor Statistics

The core finished goods PPI has shown a tendency for above-trend gains in January and a return toward or to trend-like gains in February. Even in 2001, a recession year, core finished goods prices rose 0.4% in January; they then reversed course in February, falling 0.2%, and averaged +0.1% in the next 10 months.



Source: Bureau of Labor Statistics

Mortgage Applications (L) (Wed, Mar 19, 7:00 am)

MBA indexes	Purchase index		Refi index	
	Wkly	4-wk avg	Wkly	4-wk avg
Feb 15	357.6	382.2	3533.8	4648.2
Feb 22	358.2	381.3	2458.9	3987.1
Feb 29	363.1	370.7	2569.0	3365.8
Mar 7	368.8	361.9	2448.2	2752.5
Mar 14				

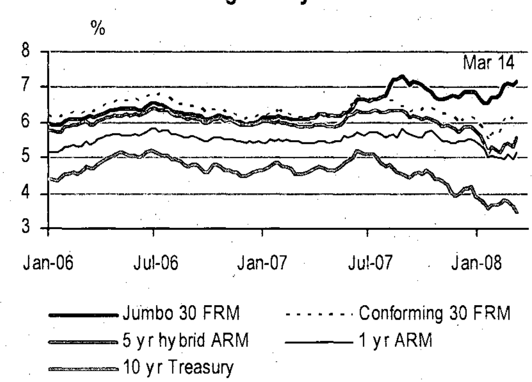
Source: Mortgage Bankers' Association

The mortgage applications purchase index was a poor guide to home sales in 2007: it was up 4% y/y in Q4 versus a 23% y/y decline in single-family home sales. It has declined so far this year: at 363, the latest four-week average is down sharply from 420 on average in Q4.

With the recent rise in mortgage rates, refi applications have fallen most of the way back to Q4 levels after roughly doubling in January. (The refi index was 2448 in the week of March 7, versus a peak of 5104 in January and an average of 2181 in Q4.)

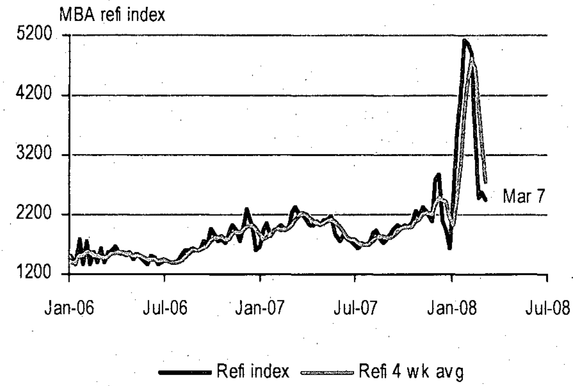
Sharp increases in mortgage rates in the latest week demonstrate the stresses that the Fed is trying to address with the Term Securities Lending Facility. Broadly speaking, mortgage rates have reversed all of their early-2008 declines. Among nonconforming mortgages, the effective tightening has been even greater (see chart). Within the MBA survey, 30-year fixed-rate mortgage rates jumped to 6.37% in the latest report from 5.98%. They were well up from the low of 5.49% in January and from 6.10%, on average, in December. At the other end of the spectrum, 1-year ARMs jumped to 6.72% from 5.83% the previous week; they averaged 6.21% in December. Intermediate-term rates show the same pattern.

Sharp increases in mortgage rates in the last two weeks demonstrate the stresses that the Fed is trying to address with the Term Securities Lending Facility.



Source: Wall Street Journal, Freddie Mac, and Federal Reserve Board

The refi index has fallen in recent weeks after surging in January; it is more sensitive to long-term than short- or intermediate-term mortgage rates.



Source: Mortgage Bankers' Association

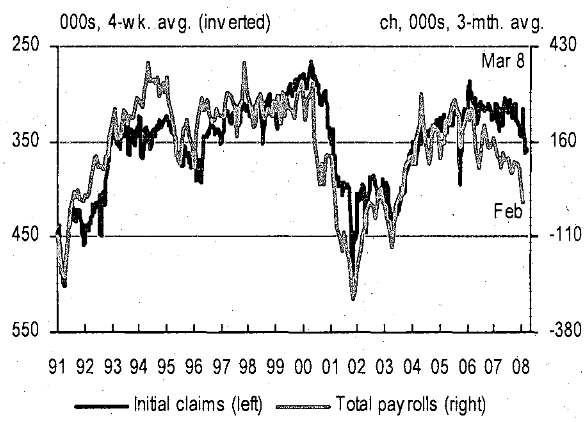
Jobless Claims (L) (Thu, Mar 20, 8:30 am)

	New claims (000s)		Continuing claims	
	Wkly	4-wk avg	000s	%
Feb 9	358	350	2786	2.1
Feb 16*	354	362	2802	2.1
Feb 23	374	361	2828	2.1
Mar 1	353	360	2835	2.1
Mar 8	353	359		
Mar 15* forecast Market	360			
UBS	360	360		

*Sample week for employment report

Source: Department of Labor, Bloomberg, and UBS estimates

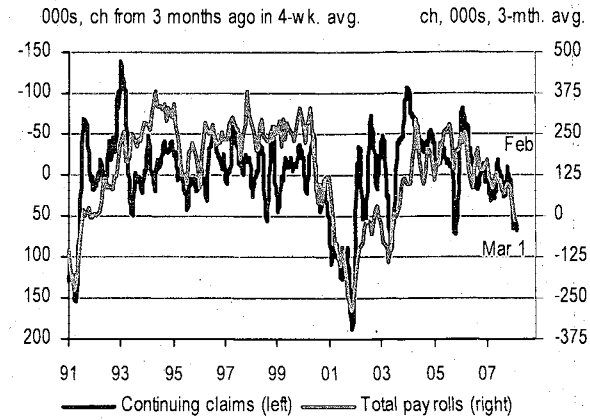
The relationship between new claims (plotted inversely below) and payrolls appeared to break down a bit in 2007, with more of the weakness in employment to date reflecting reduced hiring rather than increased layoffs, and more of the layoffs not leading to a claim. The latest claims data show a more clear-cut rise in layoffs.



Source: Department of Labor

At 359,000, the latest four-week average in new claims was up significantly from 322,000, on average, in all of 2007. Continuing claims continued to show a clear uptrend. The latest reading of 2.835 million compares with 2.553 million, on average, in 2007 and 2.620 million in Q4.

Continuing claims (plotted inversely below) have risen sharply. They have looked more consistent than new claims with the slowing in payrolls.



Source: Department of Labor

Leading Indicators (C/L) (Thu, Mar 20, 10:00 am)

	History			Feb forecast	
	Nov	Dec	Jan	Market	UBS
Index (%m/m) (L)	-0.4	-0.1	-0.1	-0.3	-0.1
%y/y	-1.1	-1.7	-1.5		-1.2
Coincident (%m/m) (C)	0.0	0.1	0.1		
%y/y	1.6	1.4	1.5		

Source: Conference Board, Bloomberg, and UBS estimates

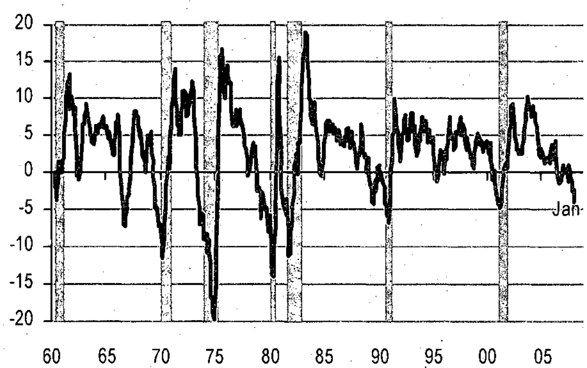
We forecast a 0.2% m/m decline in the index of leading indicators in February, led by the rise in jobless claims and declines in the manufacturing ISM vendor performance index, consumer expectations, and stock prices. The weakness in those indicators was likely partially offset by strength in real money supply growth and a wider spread between the 10-year Treasury yield and the Fed funds rate.

In January, the leading economic index signaled recession. According to the Conference Board's Business Cycle Indicators (BCI) Handbook, "a recession has usually just begun, or is imminent, when the following two criteria are met simultaneously across a six-month span: (1) the annualized rate of change in the leading index falls below –3.5 percent over a six-month span; and (2) the diffusion index is below 50 percent." The index was down 4.0% at an annual rate in the six months through January, with a majority of components weakening. (Eight of 10 components declined in the six months through January.)

However, our forecast for February does not meet the criteria. The index would be down about 2.5% at an annual rate in the six months through February, although the majority of components would still show weakening. The pace is similar to the six-month pace through December. Then too the index had not weakened enough to indicate a current or imminent recession but was still weak enough, by the standards set forth in the BCI Handbook, to "warn" of recession.

The index of leading economic indicators fell for the fourth consecutive month in January. In the six months through January, the index was down 4% at an annual rate—a degree of weakness that is consistent with the economy falling into recession.

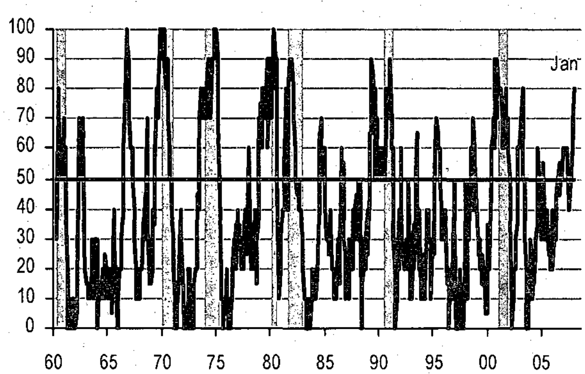
Index of leading economic indicators, 6-month % change, annual rate



Note: Shaded areas mark recessions. Source: Conference Board

The majority of the components of the index of leading economic indicators have usually weakened before a recession. That pattern is now evident.

Percent of leading index components falling over previous six months



Note: Shaded areas mark recessions. Source: Conference Board

Philadelphia Fed Survey (C/L)
(Thu, Mar 20, 10:00 am)

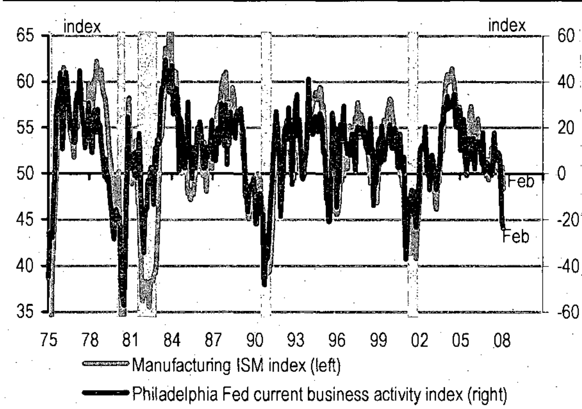
Indexes	History			Mar forecast	
	Dec	Jan	Feb	Market	UBS
Current activity (C)	-1.6	-20.9	-24.0	-18.0	-15.0
New orders (L)	12.0	-15.2	-10.9		
Employment (C)	3.8	-1.5	2.5		
Prices paid (L)	36.5	49.8	46.6		
Prices received (C)	15.2	32.0	24.3		
6-month outlook (L)	11.1	5.2	-16.9		
6-month capex (L)	22.3	19.0	1.7		
UBS Philly index*	4.4	-6.8	-8.2		

*Composite index based on manufacturing ISM weights (with shipments used as a proxy for production).

Source: Federal Reserve Bank of Philadelphia, Bloomberg, and UBS estimates

The current activity index plunged in January to the lowest level since the 2001 recession and then fell further in February. Details of the survey were not quite as weak in January or February, nor was the national manufacturing ISM index. We expect the March reading will not be as weak as the February reading but will still imply significant weakness.

The Philly Fed current activity index has looked weaker than other measures of manufacturing. Although the manufacturing ISM index may not be at a level associated with past recessions, there has been enough weakness in housing, the nonmanufacturing ISM, and employment data to be consistent with recession.



Note: Shaded areas mark recessions.
Source: Federal Reserve Bank of Philadelphia and Institute for Supply Management

Samuel Coffin

U.S. Economic Data and Events Calendar

Mar 10 - Apr 4 2008

Monday	Tuesday	Wednesday	Thursday	Friday
10 Jan Wholesale Trade (10:00) 0.8% 10-Yr Announcement (11:00) (reopening) 4-week Bill Announcement (11:00) 3- & 6-month Bill Auction (13:00)	11 Q2 Manpower Employment Survey (0:01) 14 Feb NFIB Index (7:30) 92.9 Weekly Store Sales (7:45/8:55) Jan Trade Balance (8:30) -$58.2 bil Jan Regional and State Employment and Unemployment (10:00) Mar TIPP/IBD Optimism Index (10:00) 42.5 Treasury Auction Allotment Data (3:00) 4-week Bill Auction (13:00)	12 Mortgage Applications (7:00) Q4 Quarterly Services Survey (10:00) Feb Federal Budget (2:00) -$175.6 bil Jan JOLTS (10:00)	13 Initial Jobless Claims (8:30) 353k Feb Import Prices (8:30) 0.2% Feb Retail Sales (8:30) -0.6% Ex autos -0.2% Jan Business Inventories (10:00) 0.8% 10-Yr (Reopening) Auction (13:00) 3- & 6-month Bill Announcement (13:00)	14 Feb Consumer Price Index (8:30) 0.0% Core CPI 0.0% Mar Prelim. U. of Mich. Sentiment (10:00) 70.5
17 Mar Empire State (8:30) -15.0* Q4 Current Account Balance (8:30) $-180 bil* Jan Treas. Int'l. Cap (TIC) Flows (9:00) Feb Industrial Production (9:15) 0.0%* Mar Housing Market Index (1:00) 20* 4-week Bill Announcement (11:00) 3- & 6-month Bill Auction (13:00)	18 Weekly Store Sales (7:45/8:55) Feb Producer Price Index (8:30) 0.4%* Core PPI 0.2%* Feb Housing Starts (8:30) 990 k* **FOMC Meeting (announcement around 2:15)** 4-week Bill Auction (13:00)	19 Mortgage Applications (7:00)	20 Initial Jobless Claims (8:30) 360 k* Feb Leading Economic Indicators (10:00) -0.1%* Mar Philadelphia Fed (10:00) -15.0* SIFMA recommends early close for U.S. fixed income markets 3- & 6-month Bill Announcement (11:00)	21 **Good Friday** **Stock Market Closed** **Bond Market Closed**
24 Feb Existing Home Sales (10:00) 2 5-Yr Announcement (11:00) (reopening) 4-week Bill Announcement (11:00) 3- & 6-month Bill Auction (13:00)	25 Weekly Store Sales (7:45/8:55) Jan S&P/Case Shiller Home Price Index (9:00) Mar Conf. Board Confidence (10:00) Mar Richmond Fed Mfg. Survey (10:00) 4-week Bill Auction (13:00)	26 Mortgage Applications (7:00) Feb Durable Goods Orders (8:30) Feb New Home Sales (10:00) *Chicago Fed Pres Evan speaks (12:00)* *Dallas Fed Pres Fisher speaks on the Fed and regional economy (13:00)* 2-Yr Auction (13:00)	27 Initial Jobless Claims (8:30) Q4 Final GDP (8:30) Q4 Corporate Profits (8:30) Feb Help Wanted Index (10:00) Mar Kansas City Manufacturing Survey (11:00) *Cleveland Fed Pres Pianalto speaks (12:00)* *Atl Fed Pres Lockhart speaks on the economic outlook (12:20)* 3- & 6-month Bill Announcement (13:00) 5-Yr Auction (13:00)	28 Feb Personal Income/PCE (8:30) Mar Final U. of Mich. Sentiment (10:00) Feb Regional and State Employment and Unemployment (10:00) Mar Agricultural Prices (3:00) *Philadelphia Fed Pres Plosser speaks (5:20)*
31 Mar Chicago Purchasing Manager (9:45) Mar Online Help Wanted (10:00) Mar Texas Mfg. Outlook Survey (10:30) 3- & 6-month Bill Auction (13:00)	1 Mar ISM Manufacturing (10:00) Feb Construction Spending (10:00) Mar Light vehicle Sales 4-week Bill Auction (13:00)	2 Mortgage Applications (7:00) Mar Challenger Job Cuts (7:30) Mar ADP Employment Change (8:15) Feb Factory Orders (10:00) ***Fed Chairman Bernanke testifies on the economic outlook before the Joint Economic Committee (09:30)***	3 Initial Jobless Claims (8:30) Mar Non-Manufacturing ISM (10:00) *Fed Gov Mishkin speaks (19:30)* 3- & 6-month Bill Announcement (13:00)	4 Mar Change in Nonfarm Payrolls (8:30) Mar Unemployment Rate (8:30) Mar Average Hourly Earnings (8:30) Mar Average Weekly Hours (8:30)

* UBS forecasts (subject to change). Source: UBS

Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
Memorandum	An Assessment of Current Macroeconomic Conditions - From: Pierce Scranton	2	03/14/2008	P5;

This marker identifies the original location of the withdrawn item listed above. For a complete list of items withdrawn from this folder, see the Withdrawal/Redaction Sheet at the front of the folder.

COLLECTION:
Council of Economic Advisers
SERIES:
Stevens, John - Subject Files
FOLDER TITLE:
John Stevens 2007-2008; Background: Federal Reserve Actions (2007-2008)
FRC ID:
12768
OA Num.:
12185
NARA Num.:
12672

FOIA IDs and Segments:
2015-0189-F
2015-0190-F

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advise between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

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b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

This Document was withdrawn on 9/3/2015 by blc

JPMorgan Chase and Federal Reserve Bank of New York To Provide Financing To Bear Stearns

New York, March 14, 2008 -- Today, JPMorgan Chase & Co. (NYSE: JPM) announced that, in conjunction with the Federal Reserve Bank of New York, it has agreed to provide secured funding to Bear Stearns, as necessary, for an initial period of up to 28 days. Through its Discount Window, the Fed will provide non-recourse, back-to-back financing to JPMorgan Chase. Accordingly, JPMorgan Chase does not believe this transaction exposes its shareholders to any material risk. JPMorgan Chase is working closely with Bear Stearns on securing permanent financing or other alternatives for the company.

JPMorgan Chase & Co. (NYSE: JPM) is a leading global financial services firm with assets of $1.6 trillion and operations in more than 60 countries. The firm is a leader in investment banking, financial services for consumers, small business and commercial banking, financial transaction processing, asset management, and private equity. A component of the Dow Jones Industrial Average, JPMorgan Chase serves millions of consumers in the United States and many of the world's most prominent corporate, institutional and government clients under its JPMorgan and Chase brands. Information about the firm is available at www.jpmorganchase.com.

# # #

Close window | Back to top

Fed Res. Act.

Section 13-3 allows them to lend directly to Bear.

Not used since Great Depression

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FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
Email	Primary Dealer Lending Facility FAQ - To: John Stevens - From: Stevens, John J.	3	03/17/2008	P5; P6/b6;

This marker identifies the original location of the withdrawn item listed above. For a complete list of items withdrawn from this folder, see the Withdrawal/Redaction Sheet at the front of the folder.

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Records Not Subject to FOIA

Court Sealed - The document is withheld under a court seal and is not subject to the Freedom of Information Act.

This Document was withdrawn on 9/3/2015 by blc

Please contact us at FRBDiscountWindow@chi.frb.org if you have questions.

Please see our 'Collateral FAQs' at http://www.frbdiscountwindow.org/cfaq.cfm for additional information, or click here.

Federal Reserve System
Discount and PSR Collateral Margins Table*
Effective: September 22, 2006
Changes can be viewed on page 2

Collateral Category	Lendable Value for Securities or Instruments with Market Prices /1 (% of Market Value)			Lendable Value for Securities or Instruments if Market Price Not Available (% of Par or Outstanding Balance)	Lendable Value for Loans Individually Deposited at FRS/7 (% of Market Value)	Lendable Value for Loans Not Individually Deposited at FRS/8 (% of Outstanding Balance)
	Duration Buckets					
	0 to 5	>5 to 10	>10			
U.S. Treasuries and Fully Guaranteed Agencies:						
Bills, Notes, Bonds, Inflation Indexes	98%	97%	93%	90%		
Zero Coupons, STRIPS	98%	95%	90%			
Government Sponsored Enterprises:						
Bills, Notes, Bonds, Inflation Indexes	97%	96%	92%	85%		
Zero Coupons, STRIPS	96%	94%	89%			
International Agencies:						
Bills, Notes, Bonds - US Dollar Denominated	97%	95%	93%	80%		
Bills, Notes, Bonds - **AAA** - Foreign Denominated /2	92%	90%	85%			
Zero Coupons, STRIPs	94%	92%	86%			
Brady Bonds- US Dollar Denominated	95%	92%	88%	60%		
Brady Bonds - Foreign Denominated /2	90%	87%	83%			
Foreign Governments - US Dollar Denominated	97%	95%	90%	75%		
Foreign Governments - Foreign Denominated /2	92%	90%	85%			
Foreign Government Agencies - US Dollar Denominated	97%	95%	90%	75%		
Foreign Government Agencies - **AAA** - Foreign Denominated/2	92%	90%	85%			
Municipal Bonds - US Dollar Denominated	97%	95%	92%	75%		
Municipal Bonds - **AAA** - Foreign Denominated /2	90%	85%	80%			
Corporate Bonds -US Dollar Denominated	97%	95%	93%	80%		
Corporate Bonds - **AAA** -Foreign Denominated /2	92%	90%	85%			
German Jumbo Pfandbriefe - **AAA** - US Dollar Denominated	96%	92%	90%	60%		
German Jumbo Pfandbriefe - **AAA** - Foreign Denominated/2	92%	90%	85%			
Asset-Backed Securities - AAA (includes Collateralized Loan and Debt Obligations)	98%	96%	93%	85%		
Asset-Backed Securities - non AAA (excludes Collateralized Loan and Debt Obligations)	97%	95%	92%	80%		
Commercial Mortgage-Backed Securities - AAA	97%	95%	92%	80%		
Mortgage Backed Securities (includes agency and private label)	98%	96%	93%	90%		
Collateralized Mortgage Obligations - AAA (includes agency and private label)	97%	95%	92%	80%		
Trust Preferred Securities	94%	92%	90%	70%		
Mutual Funds (tcuux, tcudx, tcuxx) /5 /6		90%				
Government Sponsored Enterprise Stock (FNMA, FHLM) /6		87%				
Bankers Acceptances, Certificates of Deposit, and Commercial Paper		97%		95%		
Commercial and Agricultural Loans:						
Minimal Risk Rated /3					90%	80%
Normal Risk Rated /4					87%	75%
Agency Guaranteed Loans					93%	90%
Commercial Real Estate Loans					87%	75%
Construction Real Estate Loans					87%	75%
1-4 Family Residential Mortgages					91%	85%
Home Equity					89%	85%
Consumer Loans- Autos, Private Banking, Installment, Etc.					87%	80%
Consumer Loans- Credit Card Receivables, Student Loans						75%
Consumer Loans - SubPrime Credit Card Receivables						60%

*** This document is for informational purposes only and subject to change without notice.**
It is not binding on the Federal Reserve System in any particular transaction.

/1 New issues are valued at 90 percent of par value until they are priced by the Federal Reserve System's pricing vendor(s).
/2 Contact your local Reserve Bank for a list of the foreign denominations currently acceptable.
/3 Minimal Risk is defined as investment grade.
/4 Normal Risk is defined as below investment grade but still a "pass-credit" from a regulatory standpoint.
/5 Margin only for Credit Union Mutual Funds. Margin must be developed on a fund by fund basis.
/6 The duration buckets do not apply to the mutual fund or GSE stock margins.
/7 Pledged loan data received using electronic files formatted according to FRS's specifications (Automated Loan Deposit - ALD) and certain loans held in FRS Vaults.
(Note: Information on Automated Loan Deposit (ALD) is available at www.FRBDiscountWindow.org/ald.cfm)
/8 Pledged loan data received using paper reports or electronic files in a format determined by pledging institution.

Effective Date	Change(s)
12/16/2005	The margin for group deposited Commercial and Agricultural Loans that are Normal Risk Rated changed from 80% to 75%.
9/22/2006	A 97% margin was established for Bankers Acceptances, Certificates of Deposit, and Commercial Paper with market prices and a duration of 0-5 years.
8/17/2007	Parenthetical clarifications were made.

FEDERAL RESERVE press release

Release Date: December 19, 2007

For release at 10:00 a.m. EST

On December 17, 2007, the Federal Reserve conducted an auction of $20 billion in 28-day credit through its Term Auction Facility. Following are the results of the auction:

Stop-out rate:	4.65 percent
Total propositions submitted:	$61.553 billion
Total propositions accepted:	$20.000 billion
Bid/cover ratio:	3.08
Number of bidders:	93

Bids at the stop-out rate were prorated at 1.96% and resulting awards were rounded to the nearest $10,000 (except that all awards below $10,000 are rounded up to $10,000).

The awarded loans will settle on December 20, 2007, and will mature on January 17, 2008. The stop-out rate shown above will apply to all awarded loans.

Institutions that submitted winning bids will be contacted by their respective Reserve Banks by Noon EST on December 19, 2007. Participants have until 3:00 p.m. EST on December 19, 2007 to inform their local Reserve Bank of any error.

4.75 Disc

4.25 Fed Funds

Term Auction Facility Questions and Answers

I. What is the Term Auction Facility ("TAF")? Why are we introducing the TAF and what are some of its terms?

In view of the pressures evident in short-term funding markets, the Board of Governors of the Federal Reserve System (the "Board") has approved the establishment of a temporary Term Auction Facility ("TAF") program in which the Federal Reserve will auction term funds to depository institutions.

The TAF is a credit facility that allows a depository institution to place a bid for an advance from its local Federal Reserve Bank at an interest rate that is determined as the result of an auction. By allowing the Federal Reserve to inject term funds through a broader range of counterparties and against a broader range of collateral than open market operations, this facility could help ensure that liquidity provisions can be disseminated efficiently even when the unsecured interbank markets are under stress.

Summary of TAF Parameters

Many of the criteria and parameters for the TAF are discussed in detail below. In short, the TAF will auction term funds of approximately one-month maturity. All depository institutions that are judged to be in sound financial condition by their local Reserve Bank and that are eligible to borrow at the discount window are also eligible to participate in TAF auctions. All TAF credit must be fully collateralized. Depositories may pledge the broad range of collateral that is accepted for other Federal Reserve lending programs to secure TAF credit. The same collateral values and margins applicable for other Federal Reserve lending programs will also apply for the TAF. Other key parameters of the TAF are listed in Table 1 below.

II. Terms and Conditions for Term Auction Facility

See the Terms and Conditions for Term Auction Facility, as amended and supplemented from time to time (the "Terms and Conditions") at www.federalreserve.gov/monetarypolicy/taf.htm .

III. Eligibility

What firms may bid for TAF Advances?

A depository institution ("DI") or a branch or an agency of a foreign bank which, at the time the Bid is made:

(i) has executed the Letter of Agreement to OC-10 and all other related documents in form and substance satisfactory to its Local Reserve Bank,

which documents are on file with its Local Reserve Bank at the time a Bid is made;

(ii) is eligible for Primary Credit and expected to remain so during the term of the advance; and

(iii) has pledged assets to its Local Reserve Bank to secure any Indebtedness under OC-10.

Such DI or branch or agency of a foreign bank which submits a Bid for TAF Advances is a "Participant".

Table 1: Term Auction Facility Parameters	
TAF Rate	Fixed-rate determined via centralized single-price auction.
Term	Ordinarily 28-day; may differ reflecting holiday scheduling issues
Collateral	Any collateral eligible to secure discount window loans. Reserve Banks' standard valuation and haircut procedures apply.
Auction Cycle	**Standard Auction Schedule*** Auction Announcement Date: For the first Auction, it is expected to be a Friday Bid Submission Date: For the first Auction, it is expected to be a Monday Notification Date: For the first Auction, it is expected to be a Wednesday Settlement Date: For the first Auction, it is expected to be a Thursday *Note: Some variation may be necessary to accommodate holidays.
Minimum Bid Amount; Bid increment	$10 million; additional Bid increment in $100,000.
Minimum award increment	$10,000
Maximum Number of Bids per Participant	Two
Maximum Bid Amount Aggregated Across All Bids for a Participant	Total propositions for up to two Bids should not exceed a specified percent of announced Offering Amount for the Auction.
Maximum TAF Available to Any Single Participant, based on Margined Collateral Value	Bids will be constrained to ensure that total TAF Advances and any other term credit that will be outstanding after the Settlement Date of the Auction do not exceed 50 percent of margined collateral value as of the Bid Submission Date.
Eligible Depositories	Those eligible for primary credit—that is, those that (i) are in generally sound financial condition and expected to remain so during the term of the advance as determined by the respective Local Reserve Bank; (ii) have executed OC-10 and related documents; and (iii) have pledged assets to the Local Reserve Bank to secure OC-10 Indebtedness.
Prepayment	Not permitted
Acceleration of TAF Advances	If a Participant ceases to qualify for primary credit while any TAF Advance is outstanding, the lending Reserve Bank may, in it sole discretion, accelerate the repayment of such Advance, which Advance is then immediately due and payable.
Minimum Bid Rate	Determined based on a measure of the average expected overnight Fed Funds rate over the term of the credit being auctioned.
Auction Amount	Announced quantity determined by Chairman of Board, upon recommendation of SOMA Manager.
Noncompetitive Bids	Noncompetitive Bids may be accepted beginning with the third TAF Auction as determined by the Chairman of the Board of Governors.
Foreign Branches	Branches and agencies of foreign banks bid through their local Reserve Banks. With respect to a foreign bank with multiple branches and agencies which qualify to participate in an Auction, the following terms apply: (i) each such branch or agency may submit a maximum of two Bids, and the sum of (x) the aggregate Bid amount and (y) the principal amount of all term Advances outstanding to such branch or agency which are scheduled to mature after the Settlement Date, shall not exceed 50% of the Collateral Value of the assets pledged thereby; and (ii) a foreign bank, as a whole, may not submit more than two interest rates and the aggregate amount of all Bids submitted by all branches and agencies of a foreign bank may not exceed the

Maximum Bid Amount.

How much TAF credit may Participants bid for at auction?

See Section I.b. in the Terms and Conditions. For foreign banks with multiple U.S. branches and/or agencies, see Section I.d. in the Terms and Conditions.

For the first Auction scheduled for December 17, 2007, it is currently expected that the Maximum Bid Amount that may be submitted by a Participant shall not exceed 10% of the Offering Amount. The offering amount for the first auction is $20 billion.

Will each branch or agency of a foreign bank be treated as a separate Participant?

Each U.S. branch or agency of a foreign bank that is eligible to participate in the Auction can submit Bids as a separate Participant to its Local Reserve Bank. However, a foreign bank that has multiple branches and/or agencies is subject to the single bidder rules set forth in Section I.d. in the Terms and Conditions. Awards are booked by the Local Reserve Banks to the branches or agencies in their respective districts.

IV. Bidding Process

How does a Participant submit a Bid to the TAF?

A Participant that wishes to submit a Bid at TAF Auctions should call its Local Reserve Bank's normal toll-free discount window telephone hotline during the period between the Opening Time and Closing Time on the Bid Submission Date as stated in the Announcement for each Auction. The caller should be prepared to specify the following:

- the Participant's name and ABA number
- Authorized Submitter(s')[1] Name(s) and contact number(s)
- the requested amount of each Bid
- the interest rate (expressed as an annual rate to three decimal points for each Bid)

If a Participant wishes to submit two Bids, it must identify and submit both Bids on the same phone call to the Local Reserve Bank.

The Reserve Banks' toll-free discount window telephone hotline numbers can be found on http://www.frbdiscountwindow.org/map.cfm?hdrID=23&dtlID

To be considered submitted, all Bids should meet all of the terms in the Announcement as well as the Terms and Conditions.

[1] As defined in the Terms and Conditions, an "Authorized Submitter" is one or more individuals at a Participant authorized under OC-10 to make a borrowing request on behalf of and commit the Participant to the terms of an Advance under OC-10 with its Local Reserve Bank.

Does the person who submits a Bid on behalf of a Participant need to be authorized to borrow on behalf of the Participant?

Yes. The individual(s) who submit a Bid on behalf of a Participant should be the one(s) authorized to make a borrowing request on behalf of and commit the Participant to the terms of an Advance under OC-10 with its Local Reserve Bank (the "Authorized Submitter"). Those Participants that require two members of their own staff to request an Advance under OC-10 would be expected to observe the same standard for submissions of Bids in the TAF.

During what hours can Participants bid?

Bidding times and the Bid Submission Date will be specified in the Announcement for each Auction. Participants are advised to submit their Bids as early in the bidding window as is possible, to ensure that they get through to their Local Reserve Bank's discount window telephone hotline between the Opening Time and Closing Time.

For the first two TAF Auctions in December 2007, it is expected that the Opening Time and Closing Time during which a Participant may submit Bids would be between 10:00 am and 1:00 pm Eastern time ("ET").

What should an Authorized Submitter do if he/she cannot get through the discount window hotline before the Closing Time for submission of Bids?

If phone lines are congested as the Closing Time for Bid submission approaches, an Authorized Submitter can leave a message on the Reserve Bank's discount window telephone hotline voicemail identifying clearly his/her/their name(s), the name of the institution on whose behalf (s)he/they is/are calling, his/her/their contact phone number and the complete Bid information. After leaving such voice message, the Authorized Submitter(s) should continue calling the discount window telephone hotline until successfully reaching a Local Reserve Bank's discount window staff. Note that the burden is on the Participant to try to reach and submit a Bid in a live phone call with a Local Reserve Bank discount window staff. <u>Bids left on a voice mail will not be deemed submitted unless confirmed in a telephone call with a Reserve Bank Discount Window staff member.</u> The voicemail with complete and accurate Bid information will be used by the discount window staff as evidence that a Participant made a good faith effort in trying to submit a Bid by telephone before the Closing Time.

Will Bids be accepted by email or voice mail?

Other than as set forth above, Bids left on any voicemail will not be deemed submitted and no Bids sent by email will be processed.

Can a Participant call to change or cancel a Bid before the Closing Time? Or at any time before the Auction results are determined?

Once submitted, Participants may not cancel Bids.

As Reserve Bank discount window staff records a Bid, the staff member will validate the Bid information on the phone call on a recorded phoneline with the Participant. Where Participants require two Authorized Submitters to request a discount window loan under OC-10, the Reserve Bank discount window staff will need to speak with two Authorized Submitters to complete the Bid submission/verification process.

V. Auction Process

When will Auctions be announced on the Auction Announcement Date?

The Board will announce an Auction and issue the respective Announcement at approximately Noon ET on the Auction Announcement Date.

How will the TAF Auctions be conducted?

In an Announcement of an Auction, the Federal Reserve will announce, among other things: the Offering Amount of TAF Advances to be auctioned, the term of the Advance (normally 28 days, though holiday scheduling may affect the term of an Advance), a Minimum Bid Rate, Minimum Bid Amount, Maximum Bid Amount (per institution), and other Auction parameters . The Announcement also will specify information regarding the Auction cycle, including the Bid Submission Date and time period (Opening Time and Closing Time) when Bids may be submitted.

Each Participant will be able to submit no more than two Bids to its Local Reserve Bank.

After the Closing Time, the Federal Reserve will allocate TAF Advances using a single-price auction format. Federal Reserve staff will order Bids from the highest to lowest rate. Bids will be accepted starting with the highest rate submitted, down to successively lower rates, until the Offering Amount of TAF Advance for the Auction has been allocated or until the Minimum Bid Rate is reached (whichever occurs first). The lowest accepted interest rate is the "stop-out rate." Bids at interest rates above the stop-out rate will be allocated the full amount of TAF Advance bid for. Bids at the stop-out rate may be prorated if allocating the full amount requested would cause the total amount allocated in the Auction to exceed the Offering Amount. All Participants awarded Bids will pay the stop-out rate, regardless of the interest rates at which they bid.

How will partial awards at the stop-out rate be determined?

If the aggregate Bid amount at or above the stop-out rate exceeds the Offering Amount, the following proration will be applied to Bids submitted at the stop-out rate:

1. The amount of all Bids above the stop-out rate will be subtracted from the Offering Amount to yield a "Remaining Offering Amount". The Remaining Offering Amount will

then be divided by the aggregate amount of Bids at the stop-out rate. That fraction will be rounded to two decimal places using a two-sided rounding convention (the "Proration Percentage"). (E.g. if the fraction at the stop-out rate required to "fill" the Auction is 5.177355892 percent, the Proration Percentage will be 5.18 percent.)

2. Each Bid at the stop-out rate will be multiplied by the Proration Percentage. The product will be rounded to conform with the minimum award increment as stated in the Announcement. Awards at the stop-out rate that would fall below the minimum award amount will be rounded up to that amount. Other awards will be rounded, in accordance with a two-sided rounding convention, to the nearest minimum award increment as stated in the Announcement. (E.g. If the Bid is $10 million, the minimum award amount stated in the Announcement is $10,000, and the Proration Percentage is 0.01%, the award will be rounded up to $10,000 (rather than 0.01% of $10 million which is $1,000). If the Bid is $103 million, the minimum award increment is $10,000 and the Proration Percentage is 0.01%, the award will be $10,000 (rather than 0.01% of $103 million which is $10,300)).

Note that this rounding process could cause the total amount awarded in an Auction to deviate from the Offering Amount.

VI. Notification and Award Process

Will Participants be notified of winning Bids?
Yes. See below.

How will Participants with winning Bids be notified?

Reserve Bank discount window staff will contact Participants who have been awarded TAF Advances on the Notification Date following the announcement of Auction results by the Board and before approximately Noon ET. If a Participant has not been contacted by a Reserve Bank discount window staff during this interval and it feels its Bid should have resulted in an award, it should contact its Reserve Bank discount window staff before 3:00 p.m. ET on the Notification Date.

The Board will announce Auction results at approximately 10:00 am ET on the Notification Date. The Board also will publish summary statistics of the Auction results on its website.

Will the Federal Reserve release information about individual Bids or Participants?

The data on Bids of individual Participants or of Participants will not be made public, except as required by law.

What will be announced about the winning Bids? How can this inform me whether or not my Bid was accepted?

The Auction award announcement will specify the stop-out rate (i.e. the lowest rate at which Bids were submitted that was accepted and the rate at which all Advances will be made) and the Proration Percentage of Bids at the stop-out rate.

The Auction results also will report, among other things, the aggregate amount of Bids submitted, the aggregate amount of the TAF award and the number of Bids submitted.

Will Participants be notified of losing Bids?

No. Participants with losing Bids will not be contacted by the Reserve Banks. Participants that submitted losing Bids at rates below the stop-out rate should be able to determine that they will not receive awards from the Auction award announcement which reflects a stop-out rate above the rates of their Bids.

What should a Participant do if it believes its Bid result is incorrect?

If a Participant believes its Bid result is incorrect, it should contact its local Reserve Bank discount window staff by 3:00 p.m. ET on the Notification Date.

When will the TAF Advance be posted to winning Participants' accounts?

Normally, the Advance will be posted by the close of Fedwire (usually 6:30 p.m. ET) on the Settlement Date day specified in the Announcement.

Can a winning Participant refuse to accept the award?

No, once submitted, a Bid constitutes a commitment to accept funds awarded under the TAF.

Can a Reserve Bank refuse to credit a Participant its award?

As with other extensions of credit by Reserve Banks, TAF funds must be collateralized to the satisfaction of the Reserve Bank, and a Reserve Bank will not post the award to a Participant's account if the amount of collateral pledged by the Participant is insufficient to cover its outstanding Indebtedness to the Reserve Bank under OC-10. See Section VII (Collateral and Collateralization) below.

How will awarded TAF Advances be reported on the Reserve Banks' balance sheets?

Awarded TAF Advances will be recorded in a new line on the H.4.1 Federal Reserve statistical release, Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks. It will be a line under Reserve Bank credit, "Term Auction Credit". It will be the line above "Other loans to depository institutions".

VII. Collateral and Collateralization

What kind of collateral is acceptable for the TAF?

The same collateral that is eligible to be pledged by a DI as security for discount window loans is acceptable for the TAF. Advances under the TAF to a Participant will be collateralized by the same pool of collateral as its borrowings from the discount window primary or seasonal credit programs. See Discount Window and PSR Collateral Margins Table at http://www.frbdiscountwindow.org/discountmargins.cfm?hdrID=21&dtlID=83.

What is the reason for the overcollateralization[2] at the time the Bids are submitted?

The overcollateralization is designed to ensure that DIs retain some capacity to borrow under the primary credit facility to meet unexpected overnight funding needs. The over-collateralization is checked on the day Bids are submitted and verified. Collateral applied to existing TAF Advance or other discount window loans that will mature on or before the day the new TAF Advance will settle is considered "available;" collateral applied against existing term loans that will mature after new TAF Advance settles is not "available."

The overcollateralization requirement applies only on the Bid Submission Date; it is not monitored over the term of a TAF Advance. During the term a TAF Advance is "on the books" of a Reserve Bank, the margined value of available collateral may fall and the amount of overnight or other term primary credit loans that a DI may obtain may be less than that on the Bid Submission Date.

What happens if the value of a Participant's available collateral drops below the amount it has won in the Auction before Settlement Date?

The value of each winning Participant's available collateral must be large enough to cover the TAF Advance when the advance is booked on the Settlement Date. If the margined value of a winning Participant's available collateral were to fall below the amount of TAF Advance awarded to it in the Auction at any time before, on, or after, Settlement Date and before Maturity Date, the Participant would need to pledge additional collateral to cover the shortfall or the Reserve Bank may exercise its remedial rights under OC-10. (The same remedial actions available for other discount window loans would be applicable to a TAF Advance).

In the event the full amount of TAF Advance is not posted to a winning Participant's account, the amount by which the TAF Advance would be reduced would not be reallocated to other Participants and the affected Participant would not be eligible to receive the balance of that TAF award on a subsequent day.

[2] On the Bid Submission Date, the sum of (i) the aggregate Bid amount submitted by a Participant in an Auction and (ii) the principal amount of all term Advances outstanding which are scheduled to mature after the Settlement Date is not to exceed 50% of the Collateral Value of the assets pledged by such Participant.

Will Reserve Banks undertake greater-than-usual measures, such as more frequent revaluations or more intensive monitoring, to ensure that the value of collateral for TAF Advances remains adequate?

No, normal procedures for the evaluation and monitoring of collateral for discount window loans will be used.

VIII. Non-Collateral Terms

Can a Participant prepay the TAF Advance?

Prepayment of TAF Advances is not permitted.

Is there any restriction on use of funds a Participant obtains from the TAF?

No.

Does a DI need to submit any additional agreements or forms (in addition to OC-10 and related documents) to participate in the TAF program?

No. A DI must have executed and delivered to its Local Reserve Bank OC-10 and related documents. By submitting a Bid, a DI agrees to be bound by the terms and conditions of the Auction Announcement, Regulation A, the Terms and Conditions and OC-10. No additional agreements or forms are necessary.

IX. Miscellaneous

Where on the Call Report would a DI report term auctioned funds?

TAF Advances are loans from Federal Reserve Banks, and are reported with other such liabilities—for example, on FFIEC 031 (September 2007), TAF loans would be included in Schedule RC, item 16, "Other borrowed money," and in Schedule RC-M, item 5.b, "Other borrowings."

Noncompetitive Bids

Noncompetitive Bids may be accepted beginning with the third TAF Auction as determined by the Chairman of the Board of Governors. In the event noncompetitive Bids are permitted, information and procedures for noncompetitive bidding will be announced prior to the date noncompetitive Bids may be submitted in an Auction.