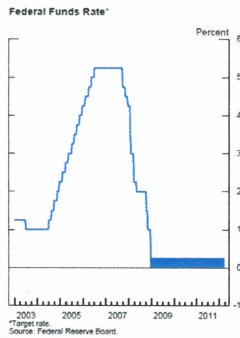


Federal Funds Rate

- To support the recovery, the Fed reduced the federal funds rate from 5½ percent in September 2007 to nearly zero in December 2008, where it has remained since.



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THE FEDERAL RESERVE AND THE FINANCIAL CRISIS THE AFTERMATH OF THE CRISIS

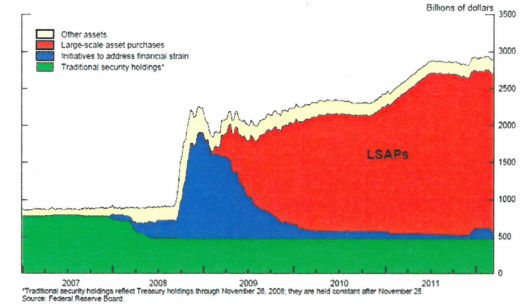
Large-Scale Asset Purchases

- To influence longer-term rates directly, the Fed undertook large-scale purchases of Treasury and government-sponsored enterprise (GSE) mortgage-related securities.
- Large purchase programs were announced in March 2009 and November 2010.
- These actions boosted the Fed's balance sheet by more than \$2 trillion.

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Large-Scale Asset Purchases

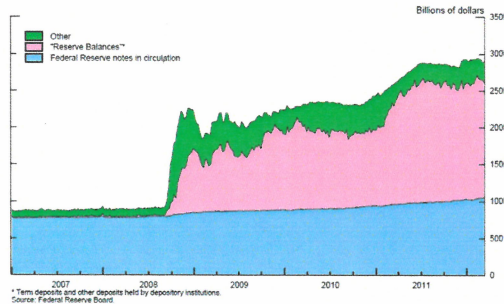
Federal Reserve Balance Sheet, Assets



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Large-Scale Asset Purchases

Federal Reserve Balance Sheet, Liabilities and Capital



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THE FEDERAL RESERVE AND THE FINANCIAL CRISIS THE AFTERMATH OF THE CRISIS

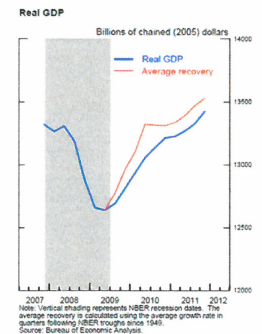
Effects of Large-Scale Asset Purchases

- LSAPs (also known as quantitative easing) lowered longer-term interest rates.
 - 30-year mortgage rates fell below 4 percent.
 - Corporate credit became more available, and stock prices rose.
- Lower longer-term interest rates helped promote recovery, though the effect on housing was weaker than hoped.

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Sluggish Economic Recovery

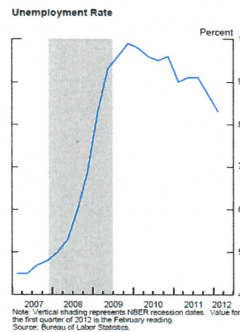
- But the pace of recovery has been extremely sluggish compared with previous post-World War II cyclical recoveries.



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Sluggish Economic Recovery

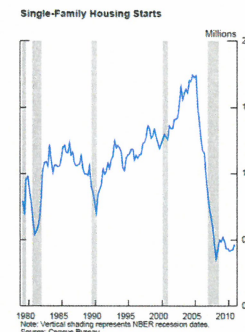
- As a result, job prospects have improved only gradually and the unemployment rate remains painfully high.



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Slowing the Recovery: Housing

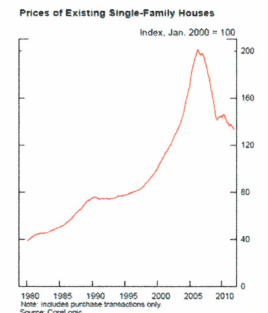
- Why has the recovery been slower than hoped?
- A resurgent housing market normally helps power economic recoveries, but not this time.



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Slowing the Recovery: Housing

- Declining house prices discourage new construction.
- More generally, sharp declines in house prices make consumers feel poorer, and thus less willing to spend.



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