

2009 Bank Highlights

The turmoil of 2008 subsided in 2009 as credit markets quieted and financial conditions stabilized. However, economic activity remained weak, and financial challenges intensified for many families and businesses. Bank staff continued working to ameliorate conditions. We contributed to the development of national policies and programs directed at easing the crisis and also undertook a number of specific initiatives here in New England. We tried to better understand the crisis, possible ways to address it more effectively, and reforms that might ward off a recurrence. We also made progress on longer term issues not directly related to the crisis.

Highlights of 2009 include the following:

Bank supervisory staff took on a number of new responsibilities. We led a Federal Reserve System workgroup focusing on “lessons learned” to examine what bank supervisors might have done differently and what might work better in the future. The group’s recommendations are influencing views about large financial institution supervisory processes going forward. Staff also contributed substantially to the Supervisory Capital Assessment Program (the so-called “stress test”) that examined the capital adequacy of the nation’s largest banks. This stress test proved particularly instructive and helped allay public concerns about the solvency of these institutions. We will continue to conduct forward-looking work of this nature. Additionally, Boston Fed supervisory personnel continued to participate in international discussions of appropriate bank capital requirements (Basel II modifications), and, with banks in some parts of the country experiencing greater financial difficulties than banks here in New England, a number of our examiners traveled to other districts to provide assistance.

The Bank’s economists advised the Bank president about economic conditions nationally and in New England, about interest-rate policy, and about special programs to address certain aspects of the deterioration in credit conditions. A focal point of analysis was the value of bank-supervision responsibilities in informing central-banking responsibilities. In October, the Bank hosted a conference of economists and policymakers focused on this issue. Several presenters observed that the information gained in bank supervision

has provided valuable insight in the formulation of monetary policy. A number of speeches by the Bank president also explored the contribution that bank supervisory information makes to monetary policy. In other monetary-policy work, two of the Bank's economists published a paper on "changing inflation dynamics," and two economists organized a multi-Reserve Bank effort for the Federal Open Market Committee to present our best understanding of the determinants of inflation. Bank economists also engaged in research on the probability of deflation and analyzed the effect on interest rates of the Federal Reserve System's large scale asset purchase programs.

As mortgage foreclosures continued to climb, the Bank responded by organizing two major foreclosure-prevention workshops, one in Hartford in February and a second in Boston in September. We were pleased that large numbers of borrowers were assisted in both of these events, but we remain concerned that progress is slow in achieving "permanently successful" modifications, and many borrowers continue to be unable to meet their mortgage payments. Observing that unemployment often plays a role in precipitating foreclosure, our economists developed a proposal for helping unemployed homeowners avoid falling into foreclosure. They shared this proposal with members of Congress and presented it to a number of groups. They also provided testimony to the U.S. Senate Banking Committee and spoke and wrote in a variety of other forums about the evolving foreclosure crisis.

The Bank continued its research and support for ongoing efforts to revitalize the City of Springfield, Massachusetts, with the primary aim of integrating less economically advantaged residents into the economic mainstream. The Bank prepared a report analyzing the experiences of other mid-sized cities similar to Springfield and explored labor market challenges for residents of Springfield's low income neighborhoods. The essay in this annual report summarizes the experiences of some of the cities that have been particularly successful in achieving resurgence.

The Bank's New England Public Policy Center produced a number of papers addressing the fiscal challenges facing New England states and municipalities. These included an analysis of the effectiveness of state business tax incentives and a history of tax reform efforts in Maine. The center also continued its work to assess and find ways to strengthen the supply of skilled labor in New England. Based on the Center's research, the Bank worked cooperatively with the Greater Boston Chamber of Commerce on promoting internships as a way to retain more college graduates in the area. This collaboration led to a workshop for employers and educational institutions seeking to make more strategic use of internships and an informational and social event that attracted some 300 interns working in Greater Boston.

The Bank's work on behalf of the U.S. Treasury encompasses three funds management programs: the Internet Payment Platform (IPP), an application enabling federal agencies to handle all purchasing and payment transactions in a single web-based system; the Stored Value Card (SVC) program, a payments card for use by military personnel at bases in the United States and abroad; and a Cash Management program that manages cash flows from depository institutions, enabling the Treasury to collect the public's money more efficiently. Significant efficiencies, expansions, and improvements were achieved in these programs in 2009. Most notably, we designed a new approach to collecting Treasury funds that will speed the flow of funds into the Treasury's account and provide greater information about the funds flow. We also collaborated with Treasury and the Office of Management and Budget to propose new ways to use IPP to increase government efficiency and satisfy new government-spending transparency requirements. And, we continued to expand the use of the SVC in overseas peacekeeping areas, making modifications that increase convenience for military personnel and reduce costs.

On behalf of all Reserve Banks, the Boston Fed is responsible for Internet security and for the coordination of Federal Reserve System financial management. In Internet security, among 2009 accomplishments, the Bank conducted a comprehensive review and introduced or planned several new security improvements and upgrades. In financial management, a multi-year strategic plan was developed cooperatively with other Reserve Banks and the Board of Governors. The plan both supports and provides leadership for financial management across the Federal Reserve System.

The Bank achieved a number of additional milestones in 2009. Our Office of Diversity completed its first full year of operation. A formal volunteer program was established in the fourth quarter. And in December, our property-management group was pleased to be able to complete and submit all required documentation so that our building, 600 Atlantic Avenue, can earn certification as meeting the highest industry standards for an environmentally well-run and energy-efficient building (LEED-EB certification).