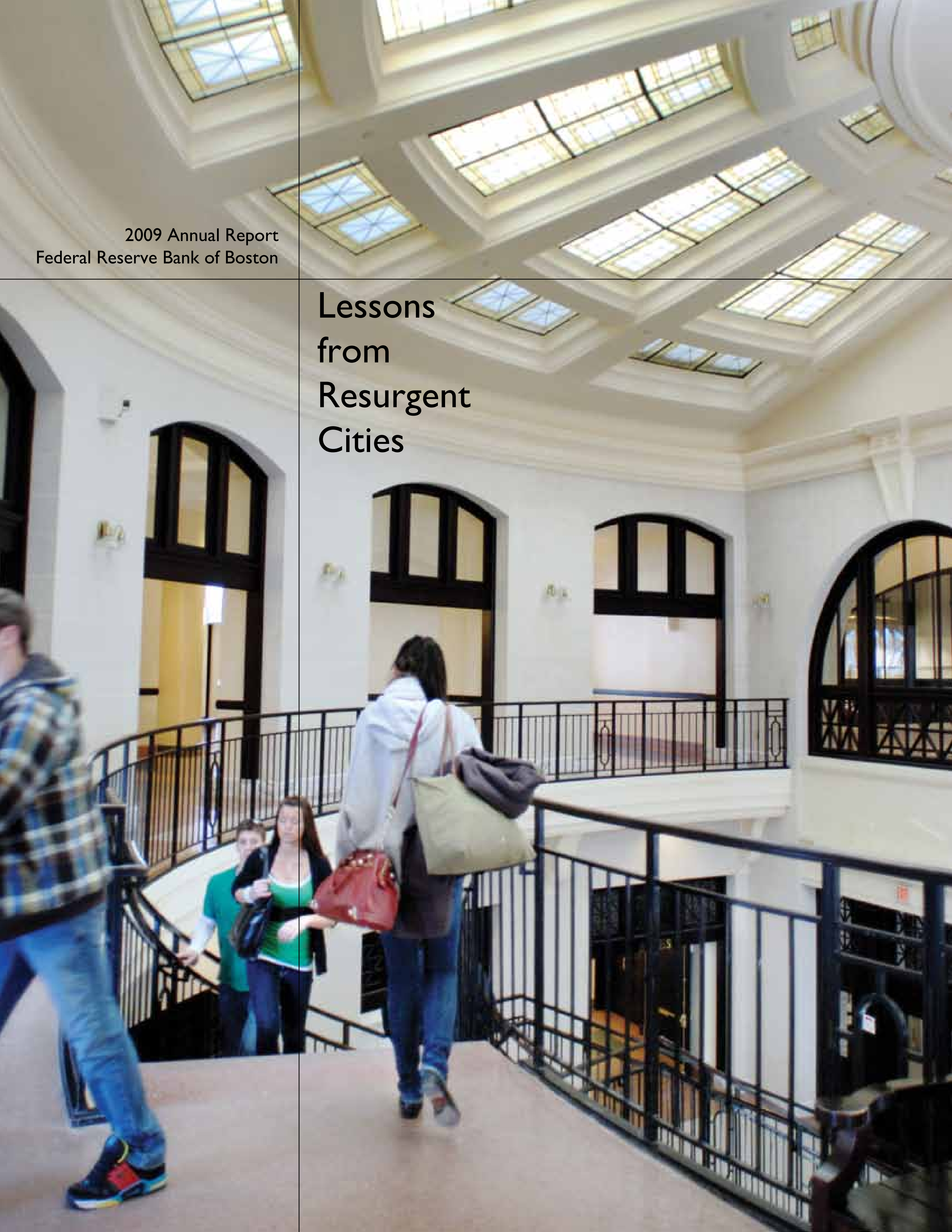

2009 Annual Report
Federal Reserve Bank of Boston

Lessons from Resurgent Cities

Downtown, New Haven, CT

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Cover: Union Station, Worcester, MA

Letter from the President

I am pleased to share this report on the Bank's 2009 activities and, with this letter, provide a perspective on the economy, Federal Reserve activities, and the financial crisis of the last few years.

Economic difficulties persisted through 2009. Despite significant improvement in financial conditions, the recovery in the real economy proceeded slowly — with the declines of the first half of the year turning to growth in the third and fourth quarters. Unemployment remained unacceptably high. At 9 percent in November, the unemployment rate in New England was at the highest level in 33 years — although still below the national rate.

At year end, the economy still faced significant challenges. First, while the banking crisis had passed, banking problems remained in many parts of the country and constrained the supply of credit. Second, consumers and businesses remained cautious, with housing prices well below their peak, high unemployment rates, and continued home foreclosures. A third challenge involved the fact that severe recessions have broader ramifications for labor markets — for example, some workers who are unemployed for long periods may suffer a permanent deterioration in their skill sets.

Still, the financial system and economy were in far better shape as 2009 ended than at the beginning of the year. Some of this was due to Federal Reserve actions. Measures like our program to purchase mortgage-backed securities contributed to lower mortgage rates, making it more affordable for households to obtain or refinance a mortgage. Our AMLF lending facility supported money market mutual funds at a time of stress and, ultimately, shored up the market for commercial paper — a market that funds credit cards, student loans, and

Downtown, New Haven, CT

home equity loans. Our Term Asset-Backed Securities Loan Facility (TALF) facilitated the renewed issuance of consumer and small-business asset-backed securities — essentially providing a financing vehicle for credit instruments that had been disrupted by poor functioning in securitization markets. In doing this, we helped make credit more available for student loans, consumer credit, commercial real estate, and small business loans.

Although we are distressed by the financial and economic difficulties that many New Englanders continue to face, we are confident that the steps we took to address the crisis helped avoid much worse outcomes, and we know that our work is not yet done. Some of our notable activities at the Boston Fed in 2009 included operating the AMLF lending facility on behalf of the Federal Reserve System, taking a critical role in the so-called "stress tests" of major banks, and influencing foreclosures and policymaking with workshops for troubled borrowers in Hartford and Boston and with insightful research. We have also tried to contribute to the revitalization of the city of Springfield, Massachusetts, with research and with meetings with local stakeholders around the issue of fostering more collaborative leadership. We have developed innovative payment and accounting services that assist the U.S. Treasury Department and, ultimately, taxpayers. Also, as discussed in last year's annual report, we have an ongoing interest in New England's future skilled labor force and retaining recent college graduates. Building on that work, this year we partnered with the Greater Boston Chamber of Commerce and others to engage summer interns at local businesses, to explain the benefits of living and working in Greater Boston after graduation. My colleague Paul Connolly, the Bank's Chief Operating Officer, has been a true leader in this work. These and other initiatives are described in more detail in the Bank Highlights section of this report.

With the financial crisis ebbing, in 2009 we worked hard to parse out, and apply, its lessons. We are, for example, reorienting our bank-supervisory activities in areas like capital adequacy, risk-management practices, liquidity management, and the effects on risk-taking of compensation structures. And we are augmenting traditional firm-specific oversight with a more comprehensive approach to anticipating and addressing threats to financial stability — a so-called "macroprudential" approach that goes beyond a focus on the safety and soundness of individual institutions to also focus on risks to the financial system as a whole.

Chief among the lessons I believe the nation should draw from the crisis is the need to address critical gaps in the U.S. financial regulatory framework. The much-discussed financial rescue of AIG, for example, highlights that no agency had direct supervisory oversight of complex high-risk activities undertaken by a large, interconnected nonbank financial institution; and once everything went wrong, no framework existed to "wind down" or resolve the institution in an orderly manner and minimize collateral damage.

I have on occasion used a highway metaphor for the country's lack of wind-down or resolution authority for important non-bank financial institutions — which in my thinking is the most pressing of several issues in financial regulatory reform. The financial system is akin to a highway that moves well most of the time. Car accidents occur, but cause only minor disruptions to traffic — although those involved in the accident may be seriously impacted. However, if something other than a car overturns — say a tractor-trailer carrying volatile materials — you need specialized emergency equipment that can clear away such an accident. In the absence of such equipment, the roadway grinds to an extended halt, and everyone is affected — not just those in the accident. Traffic jams may even spill over onto surface roads. We have been operating in a world where bank failures can be addressed with acceptable side effects, but the failures of large non-bank financial firms cannot. It is in everyone's interest that the tools exist to clear such "vehicles" and keep the "roadways" moving.

College Hill, Providence, RI

There are many distasteful parts to the financial crisis and the choices that had to be made. The frustration many people feel is absolutely understandable. I would simply observe that the legal framework for resolution of non-bank financial institutions in an orderly, transparent, and more palatable manner did not exist — but should have, and must as we move ahead.

We are fortunate to have very dedicated staff at the Bank, and I want to thank them for their professionalism, engagement, and commitment to making a difference in the public's interest, especially during these challenging times. I also thank the members of our Board of Directors and the members of our advisory groups for the wealth of insights they shared with us from all corners of the New England economy.

I especially want to thank the three directors who completed terms of service on our board in 2009. Among their many contributions, Stuart Reese helped us greatly in launching our efforts in Springfield, and Robert Kraft hosted our first foreclosure-prevention event at his "home-away-from-home," Gillette Stadium. This workshop welcomed thousands of people in tough personal situations for a very unique event that made a difference. And during her time on the board, Lisa Lynch served as a director, deputy chair, and chair; she also headed the System's Conference of Chairs. I want to thank each of them, and our other directors, for their service and their clear focus on advancing economic well-being for the region and nation.

Eric Rosengren

Downtown, Providence, RI

Lessons from Resurgent Cities

By Yolanda Kodrzycki
and Ana Patricia Muñoz*

In 2008, the Federal Reserve Bank of Boston began a project to help reinvigorate the city of Springfield, Massachusetts. This cross-departmental initiative uses the Boston Fed's research and convening capabilities to complement the efforts of other organizations dedicated to improving economic and social conditions in New England's fourth-largest city. As noted in an earlier joint Federal Reserve-Brookings Institution study, Springfield has one of the highest rates of concentrated poverty in the country: one-third of the city's poor live in neighborhoods where poverty rates exceed 40 percent.[1] Thus, a particular focus of the Boston Fed project has been to support revitalization strategies that would enable more city residents, particularly those located in poor areas, to prosper.

While the Boston Fed project focuses on the city of Springfield, we hope to devise approaches that can be replicated in other struggling mid-sized cites around New England and the nation. To this end, this essay reports on lessons learned from our research on older industrial cities that have adapted relatively well to economic challenges, and are recognized as vital communities today. We believe these "resurgent cities" provide relevant, inspiring insights on development strategies for urban America.

Mid-sized manufacturing cities face challenges

The early 1960s were good times for the residents of Springfield. Median family income in Springfield was slightly higher than the national average, and the city's poverty rate was a little below average. About one-third of its resident jobholders worked in manufacturing. In many ways, Springfield in the beginning of the 1960s was emblematic of other successful U.S. cities of that era.

Our study identified 25 peer cities that most closely matched Springfield's profile (see Figure 1).[2] As it turned out, all of these cities are in the Northeast, Midwest, or Upper South. These peer cities had populations ranging from about 100,000 to about 250,000 residents in the

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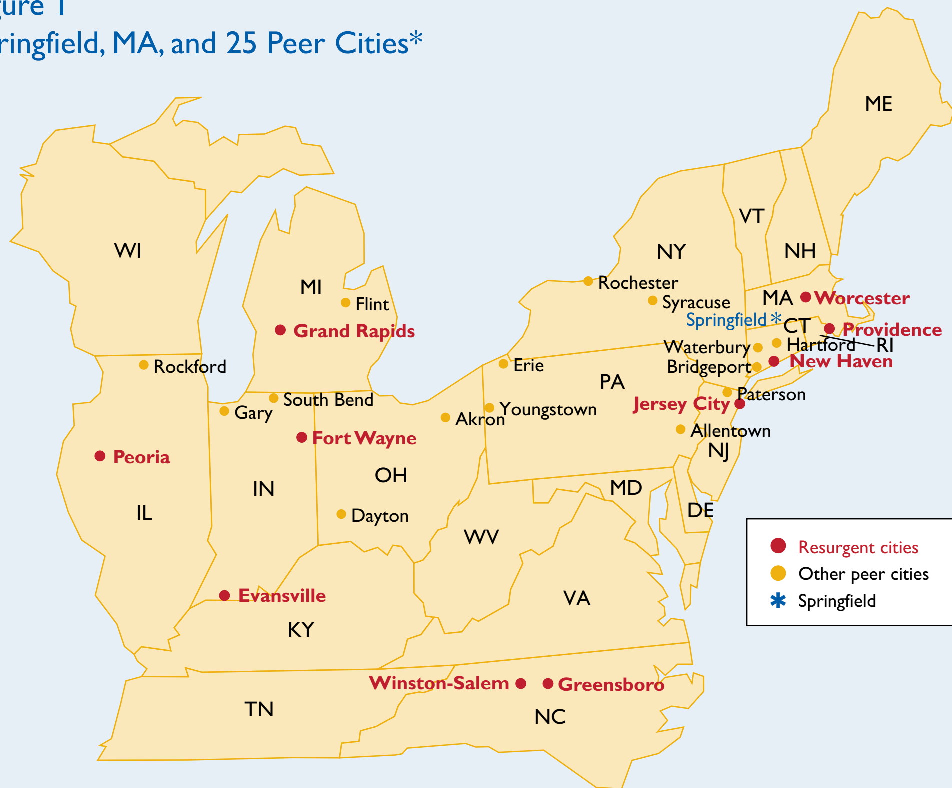
Figure 1
Springfield, MA, and 25 Peer Cities*



*Based on population, employment in manufacturing, and the role of the city in the region from 1960 to 1980.

period from 1960 to 1980, although a few started with larger populations in 1960 before shrinking in size. Their manufacturing employment shares in 1960 ranged from 30 percent to just over 50 percent. Like Springfield, each of the peer cities has remained the primary urban center of its respective metropolitan area. Thus, in addition to bearing responsibility for the well-being of their own residents, these cities continue to provide job opportunities, medical care, higher education resources, and a range of other services and amenities for the residents of the surrounding region.

We identified 10 cities (out of these 25) that have done substantially better than the others. These "resurgent cities" are Evansville (IN), Fort Wayne (IN), Grand Rapids (MI), Greensboro (NC), Jersey City (NJ), New Haven (CT), Peoria (IL), Providence (RI), Winston-Salem (NC), and Worcester (MA). Among the indicators we used to make this identification are family income, poverty rates, population trends, and reputation among economic development experts (see Table 1 and "Recognition of Resurgence" box).

The 10 resurgent cities have a number of factors in common. First, although they have fared considerably better than their peers, their economic performance over the past five decades has not been as strong as that of the national economy. In 1960,

Downtown, Providence, RI

Recognition of Resurgence

Resurgent cities have received nationwide recognition for their individual programs and for their overall revitalization process. One of the most important recognitions is the All-America City Award, a program of the National Civic League that recognizes communities whose citizens work together to identify and tackle community-wide challenges and achieve uncommon results. In the past two decades, Evansville, Fort Wayne, Grand Rapids, Greensboro, New Haven, Providence, Winston-Salem, and Worcester have been among the winners or finalists of this award. In fact, Fort Wayne has been named an All-America City three times, most recently in 2009. Among other initiatives, the latest award recognized the establishment of the Refugee Resource Center to provide services to the city's burgeoning immigrant and refugee population. Funded in part by a federal government grant, the center helps new residents of Fort Wayne learn English and other skills, and gain access to health care and employment.

In the past two decades, Evansville, Fort Wayne, Grand Rapids, Greensboro, New Haven, Providence, Winston-Salem, and Worcester have been among the winners or finalists of this award.

The range of honors awarded to Winston-Salem over the past decade illustrates the extent of the city's transformation since being known primarily as the center of the U.S. cigarette industry. In 2004, Partners for Livable Communities selected Winston-Salem as one of the 30 "Most Livable Communities," based on its "creativity and ability to prepare for the new economy."[7] Winston-Salem was also named one of the world's "Most Intelligent Communities" in 2008, in a list drawn up by the Intelligent Community Forum.[8] In 2006, the city was included among "America's 50 Hottest Cities" for business relocation or expansion,[9] and in 2009 *Forbes Magazine* ranked the Winston-Salem metropolitan area as the 18th-best place in the United States for business and careers.

Table 1
Key Economic Indicators, 1960, 1980, and 2005–07
Springfield, Peer Cities, and U.S. Total

	Median Family Income		Population Poverty Rate		Population	
	1960	2005–07	1980	2005–07	1960	2005–07
	Percent of U.S. median		Percent		In thousands	
Resurgent Cities						
Evansville	93.6	76.9	12.2	17.8	142	114
Fort Wayne	114.7	89.4	11.0	13.9	162	250
Grand Rapids	107.2	75.2	13.5	21.9	177	194
Greensboro	103.3	87.8	12.8	18.7	120	237
Jersey City	105.1	80.1	21.2	17.4	276	235
New Haven	103.6	71.9	23.2	24.0	152	124
Peoria	105.3	90.7	12.3	16.9	103	111
Providence	89.6	70.2	20.4	27.2	207	170
Winston-Salem	93.9	85.6	16.4	18.6	111	214
Worcester	102.5	92.4	14.4	18.3	187	166
Springfield	105.9	65.2	17.8	27.7	174	148
Peer City Averages						
All cities	105.3	71.1	16.7	23.6	174	149
Resurgent cities	101.9	82.0	15.7	19.5	164	181
Other peer cities	109.1	64.3	17.3	26.1	180	128
U.S. total	100	100	11.7	13.3	179*	299*

Source: U.S. Bureau of the Census. County and City Data Book (1960), American Community Survey (2005–2007).
*In millions

average median family income in the 10 resurgent cities was $5,700, similar to the U.S. figure. In 2005–07, their average median family income of $50,000 was only 82 percent of the U.S. median (see Figure 2). Similarly, the average population poverty rate deteriorated from 16 percent in 1980 to 19 percent in 2005–07; this latter reading was six percentage points higher than the U.S. average (see Figure 3). Thus, as U.S. economic activity has decentralized since around 1960, middle- and higher-earning families increasingly have tended to live in the suburbs. Even the relatively successful cities have had to cope with the challenges of being home to poorer populations than was the case in the past.

Second, most of the resurgent cities have also undergone deep changes in the racial and ethnic make-up of their populations. In 1960, as a group, the resurgent cities were not very different from the nation. On average, whites comprised 87 percent of city populations, compared with 89 percent of the national population. Now, however,

resurgent city populations are, on average, more racially mixed than many other parts of the United States. As of 2005–07, the average city in the resurgent group was 62 percent white, and two of the resurgent cities—Jersey City and New Haven—went from being over 85 percent white in 1960 to having nonwhite majorities in 2005–07. The mix for the nation in 2005–07 was 76 percent white and 24 percent other race categories (see Table 2). Hispanics have increased as a share of resurgent city populations from an average of 4 percent in 1980 to 15 percent in 2005–07, similar to their nationwide share. Providence's population was 6 percent Hispanic in 1980, and then skyrocketed to 36 percent in 2005–07, the highest share among the resurgent cities (see Table 3).

Transitioning away from a manufacturing-oriented economy has posed major challenges. Nationally, the share of manufacturing jobs has decreased dramatically since the early 1960s and, in fact, the total *number* of people employed in the U.S. manufacturing sector is lower now than it was then. In addition, manufacturing work has shifted increasingly to suburban areas, making it that much harder for city residents to access these jobs. A third common factor for the resurgent cities is that, by 1960, each of them already had a nonmanufacturing job base that offered development potential. In Evansville and Greensboro, for example, about 70 percent of employed residents worked outside of manufacturing in 1960. By contrast, none of the cities where over 40 percent of employed residents had manufacturing jobs in 1960 has yet managed to achieve resurgent status (Figure 4).[3]

The declining dependence on manufacturing over time is striking. On average, only about 14 percent of the residents of resurgent cities were employed in the manufacturing sector in the mid-2000s (Table 4). A number of other industries were major employers of urban populations, especially retail trade, education, and leisure and hospitality. In fact, industry diversification has become the norm both in resurgent and in the remaining peer cities.

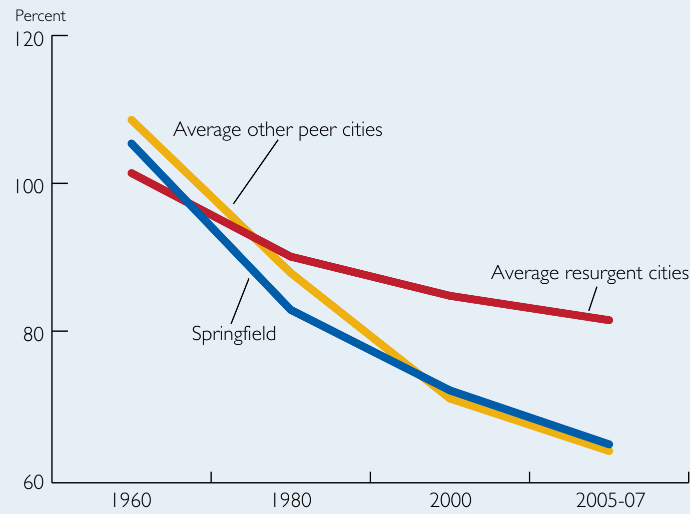
A final observation is that economic resurgence has been only weakly linked to geography. States such as Connecticut, Massachusetts, New Jersey, Indiana, Michigan, and Illinois each had both at least one resurgent city and at least one non-resurgent city. This pattern suggests that although statewide policies may have been a factor in easing economic adjustment, mid-sized cities ultimately played an important role in determining their own fates.

Leadership and collaboration drive resurgence

Time and again, our examination of the resurgent cities' histories indicated that the resurgence involved *leadership* on the part of key institutions or individuals, along

Massachusetts College of Pharmacy and Health Sciences, Worcester, MA

Figure 2
Median Family Income as a Share of U.S. Median Family Income



Source: U.S. Bureau of the Census. County and City Data Book (1960), Decennial Census (1980 and 2000), American Community Survey (2005–2007).

In some cases, the turnaround started with efforts on the part of the public sector, while in other cases nongovernmental institutions or even private developers were at the forefront.

with *collaboration* among the various constituencies with an interest in economic development. Initial leadership in these cities came from a variety of key institutions and individuals. In some cases, the turnaround started with efforts on the part of the public sector, while in other cases nongovernmental institutions or even private developers were at the forefront. In these success stories, the instigators of city revitalization recognized that it was in their own interest to prevent further deterioration in the local economy, and they took responsibility for bringing about improvement.

Regardless of who initiated the turnaround, economic redevelopment efforts spanned decades and involved collaborations among numerous organizations and sectors. Collaboration became necessary because economic transformation is complex, and because outsiders—such as state and national governments, foundations, and businesses that are potential sources of funding and jobs—often require proof of joint efforts in order to contribute to a city's development.

Public sector leadership

In some cities, revitalization stemmed from the mayor's leadership. However, ongoing commitments of business and nonprofit groups provided critical continuity as mayors changed. An interesting illustration is Providence. After World War II, the city fell into a downward spiral, losing population and jobs. In 1974, Vincent Cianci

Museum Quadrangle, Springfield, MA

was elected mayor. Although controversial, Cianci brought energy and a strong presence to the city. Working with private partners, he led Providence in carrying out a series of ambitious projects that eventually enabled its successful promotion as the "Renaissance City." After a major personal scandal forced Cianci to leave office, a private-sector coalition—led by the Providence Foundation, the Greater Providence Chamber of Commerce, corporate leaders, and the Rhode Island Foundation—was instrumental in pursuing development initiatives. Collaboration between the public and private sectors was fundamental in completing long-range projects that were essential in reconnecting downtown to the rest of the city and in developing the waterfront. The projects included the relocation of railroad tracks running through the downtown and the removal of the so-called "widest bridge of the world"[4] that had obscured the two rivers crossing the city. Upon reelection as mayor in the mid-1990s, Cianci worked to establish tax incentives to attract artists to live downtown and a loan program to help in launching restaurants.

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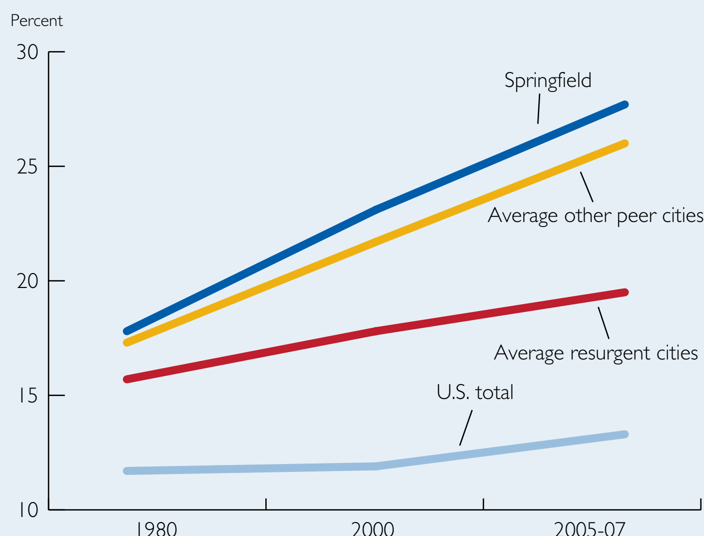
Evansville is another example of a mayor-initiated turnaround. Frank F. McDonald II, Evansville's mayor from 1959 to 1971, started his period in office by commissioning a study on the city's potential, and personally contacted businesses to persuade them to settle in Evansville. During this time, the city benefited from the construction of a civic center, federal buildings, a community center, and the state's first enclosed mall, as well as the beginnings of downtown renewal. These efforts were followed by the launching of an aggressive economic development program by the Metropolitan Evansville Chamber of Commerce in the 1980s, and more recently, by actions to develop technology-oriented businesses co-sponsored by the non-profit Innovation Pointe and the University of Southern Indiana.

Private sector leadership

While the revivals of Providence and Evansville arguably started in city halls, in other resurgent cities, businesses, philanthropists, and nonprofit organizations initiated the turnaround, and public officials joined the efforts later in the process. Located on

Figure 3
Population Poverty Rate, 1980, 2000, and 2005-07
U.S., Springfield, and Peer Cities



Source: U.S. Bureau of the Census. County and City Data Book (1960), Decennial Census (1980 and 2000), American Community Survey (2005–2007).

Grand Rapids, one of the resurgent cities in the Midwest, is a prime example of the impact that philanthropists and committed entrepreneurs can have in a city.

the west bank of the Hudson River across from Manhattan, Jersey City evolved from being a heavily industrial city in the 1950s to becoming a major financial center by the turn of the century. As employment plummeted in the 1960s and 1970s, job and population declines were accompanied by corruption scandals and soaring crime. Private-sector investors stepped in to take advantage of the city's location and relative affordability. The mid-1980s construction on abandoned waterfront property of the Newport Development, a $2.5 billion mixed-use community, is widely credited with kicking off Jersey City redevelopment. Over time, more high-rise buildings were constructed, and financial and other professional services job opportunities emerged.

The private sector could not take on the full burden of the Jersey City turnaround, however. Mayor Bret Schundler, in office from 1992 to 2001, is viewed as having changed the course of a city marked by years of corruption and economic decline, "bringing the diverse people of Jersey City together, and moving one of America's formerly most distressed cities forward."[5] Business tax incentives offered by the State of New Jersey and public transportation system improvements, including the construction of a $2.2 billion light rail system in the early 2000s, provided further impetus for firms to locate in the city.

Grand Rapids, one of the resurgent cities in the Midwest, is a prime example of the impact that philanthropists and committed entrepreneurs can have in a city.

Once known as the "Furniture Capital of the World," Grand Rapids has diversified its economy both within and outside the manufacturing sector. A significant early step in turning around the city economy was the development of a health care industry. Jay Van Andel, one of the founders of Amway Corporation, created the Van Andel Institute in 1996 to focus on research pertaining to the genetic and molecular origins of cancer and other diseases. Later on, a number of additional medical facilities and research institutions joined the Institute and the Grand Rapids Medical Education and Research Center to form the "medical mile." More recently, public-private partnerships and donations from the private sector have sparked downtown revitalization in Grand Rapids. Private investments have been viewed as providing risk-sharing and know-how to public projects.

In some of the resurgent cities, chambers of commerce and business organizations have been involved in broad aspects of economic development including education

Table 2 Racial Composition of Population, 1960 and 2005-07
Springfield, Peer Cities, and U.S. Total

	White		Black		All Other*	
	1960	2005–07	1960	2005–07	1960	2005–07
Resurgent cities						
Evansville	93.4	86.1	6.6	11.7	0.0	2.2
Fort Wayne	92.6	78.4	7.2	15.5	0.2	6.1
Grand Rapids	91.7	68.5	8.0	21.1	0.3	10.4
Greensboro	74.0	52.6	25.8	39.7	0.2	7.6
Jersey City	86.5	35.5	13.3	28.7	0.2	35.9
New Haven	85.1	45.7	14.5	36.8	0.4	17.6
Peoria	90.5	67.8	9.3	26.7	0.2	5.4
Providence	94.2	50.3	5.4	15.6	0.4	34.1
Winston-Salem	62.9	55.0	37.1	34.7	0.0	10.3
Worcester	98.8	79.7	1.1	9.0	0.1	11.3
Springfield	92.3	52.4	7.5	22.4	0.2	25.1
Peer City Averages						
All cities	87.4	56.4	12.5	30.6	0.2	13.0
Resurgent cities	87.0	62.0	12.8	24.0	0.2	14.1
Other cities	87.6	52.9	12.3	34.7	0.2	12.4
U.S. total	88.6	75.7	10.5	12.6	0.9	11.7

*Asian; American Indian and Alaska Native; Native Hawaiian and Other Pacific Islander; or some other race.

Note: In 2005–07, entries show the number of white-alone and black-alone populations as a percent of total single-race population, with all other and mixed races as the residual.

Source: U.S. Bureau of the Census. American Community Survey (2005–2007).

and workforce development programs. For instance, the Winston-Salem Chamber of Commerce developed the Blueprint for Technology in 1991, which included initiatives for K-12 public education. The chamber also formed the Winston Works task force that launched a campaign to encourage companies to dedicate at least 1 percent of their discretionary spending to local suppliers.

Although institutional arrangements have varied across cities and over time, the more successful cities now typically have a private, nonprofit organization heading economic development efforts. Such organizations collaborate closely with local chambers of commerce and other nongovernmental entities, but they have broader mandates. Economic development organizations have institutionalized relationships with city government, usually in the form of funding and representation on the board of directors.

Although institutional arrangements have varied across cities and over time, the more successful cities now typically have a private, nonprofit organization heading economic development efforts.

For example, in Peoria, a group of civic leaders created the Economic Development Council (EDC) for the Peoria Area in 1981. The EDC attracted new companies

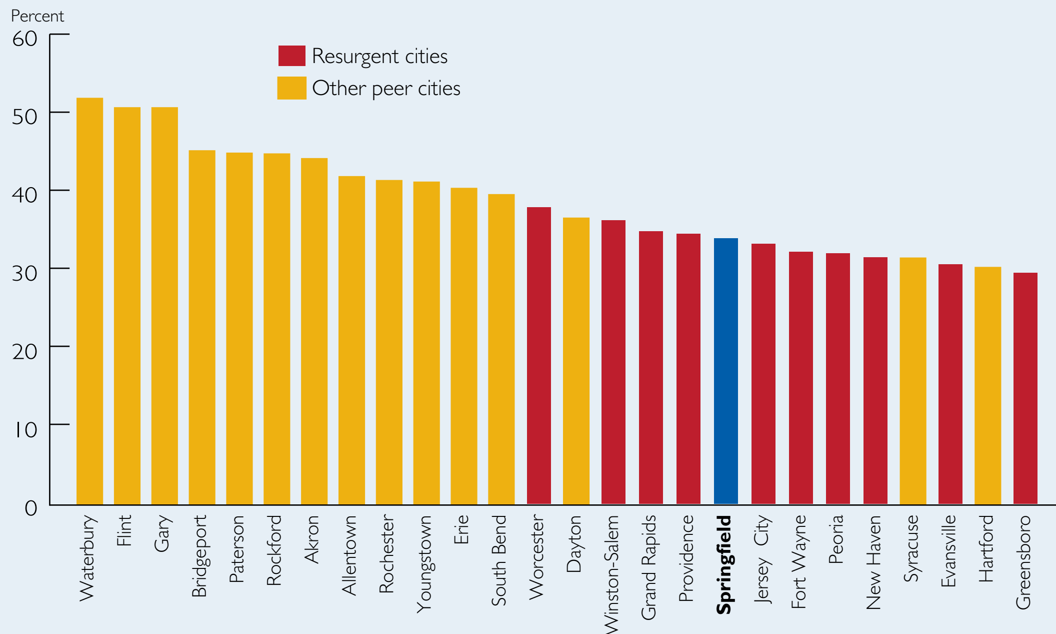
Table 3 Hispanic Share of Population, 1980 and 2005-07

Springfield, Peer Cities, and U.S. Total

	1980	2005–07
Resurgent cities		
Evansville	0.5	1.5
Fort Wayne	2.2	6.8
Grand Rapids	3.2	16.4
Greensboro	0.8	6.5
Jersey City	18.6	27.7
New Haven	8.0	24.0
Peoria	1.4	2.9
Providence	5.8	36.0
Winston-Salem	0.8	12.2
Worcester	4.3	17.7
Springfield	9.1	33.6
Peer City Averages		
All cities	6.2	17.1
Resurgent cities	4.5	15.2
Other cities	7.3	18.3
U.S. total	6.4	14.7

Source: U.S. Bureau of the Census. Decennial Census (1980), American Community Survey (2005–2007).

Forest Park, Springfield, MA



Source: U.S. Bureau of the Census. County and City Data Book (1960).

Foundations and groups of civic leaders have played an active role in revitalizing resurgent cities both indirectly . . . and directly by developing programs that contribute to transformation of these cities.

to the area, helped retain existing companies, and worked to ensure that the entire region was involved in economic development strategies. After going through rough times during the recessions of the early 1980s, community leaders, Peoria's mayor, and the private sector (including Caterpillar, the city's largest employer) joined forces to strengthen the EDC. The following year, Caterpillar and other local businesses and civic leaders formed a membership organization called Peoria Next to promote technology-centered development for the city. Through activities such as networking meetings and business incubation, Peoria Next has built up a "knowledge community network" to foster and sustain an intellectual creative class. One early mark of success, growing out of research conducted at Caterpillar, was the founding of battery developer Firefly Energy Inc., co-winner of the 2007 *Wall Street Journal* Technology Innovation Award.

Foundations and nonprofit organizations

Foundations and groups of civic leaders have played an active role in revitalizing resurgent cities both indirectly through initiating conversations and collaborations between different stakeholders and directly by developing programs that contributed to transformation of these cities.

In Greensboro, local foundations initiated a collaborative process to determine economic development strategies. In 2000, six local foundations financed a study aimed at evaluating Greensboro's economic prospects. As a result of the study, the foundations created the not-for-profit organization Action Greensboro to coordinate the development-related activities of the city's numerous business and civic groups. Action Greensboro became a major player in development, investing in numerous projects—including parks, job recruitment programs, and downtown revitalization—and gauging the progress of the city. In 2008, Greensboro was chosen among *Fortune* magazine's "100 Best Places to Live and Launch."

Universities make a difference

With the continued transition to a knowledge-based economy, development strategies increasingly have emphasized improvements to human capital. Educational attainment has improved considerably in resurgent cities. As of 2005–07, the share of population 25 years and older with a bachelor's degree or more was slightly higher than the national average (see Figure 5). As the resurgent cities demonstrate, institutions of higher education have participated in reinvigorating the cities' economies in their roles as major employers and as educators. The examples of Yale University in New Haven, educational institutions in Greensboro, and university partnerships in Worcester stand out.

With the continued transition to a knowledge-based economy, development strategies increasingly have emphasized improvements to human capital. Educational attainment has improved considerably in resurgent cities.

Close to 40 percent of employed residents of New Haven work in the education, health care, and social assistance industries. The biomedical sector has become a growing driver of the city's economy, in part thanks to the role of New Haven's educational institutions. In the early 1990s, Yale emerged as the engine of New Haven's revitalization, participating in the city's redevelopment programs (see "Yale University's Changing Role" box). In addition, other local universities such as Southern Connecticut State University and Gateway Community College, together with area businesses, are working with the city's public schools to develop curricula and materials and to provide teacher training related to biotechnology. The state of Connecticut recently matched $1.5 million in funding provided by private biotechnology and pharmaceutical companies for the "Biobus," a state-of-the-art mobile laboratory that takes biotechnology education on the road.

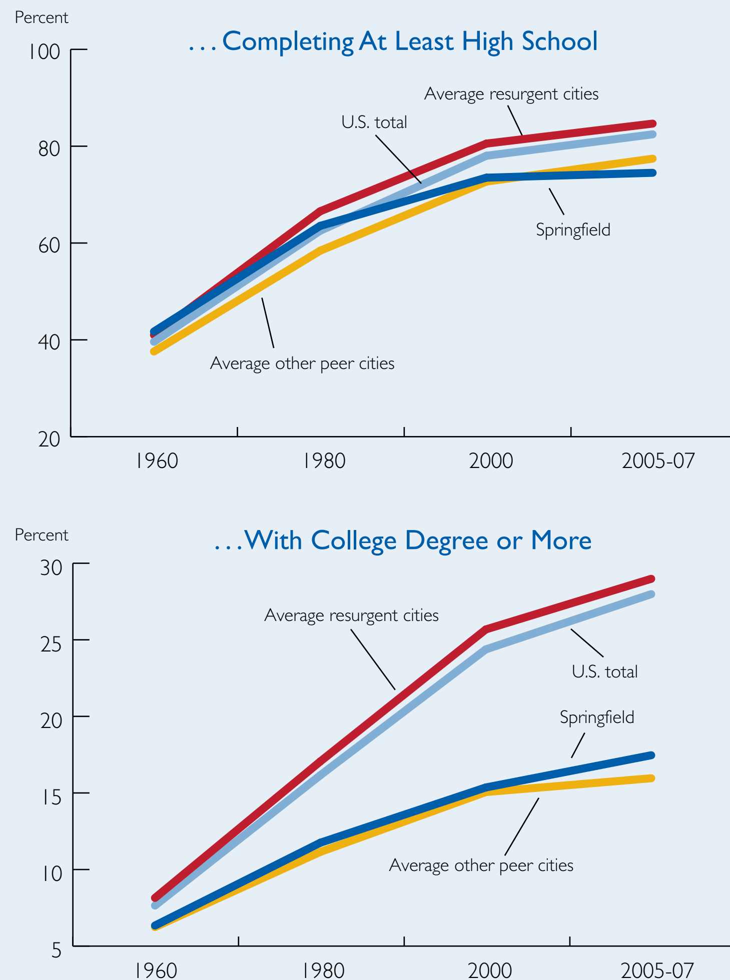
The *Greensboro News & Record* noted that "universities are the primary players in a key group that includes GTCC [Guilford Technical Community College], public schools and business that will form tighter bonds as Greensboro rebuilds, supplanting the old world dominated by businesses leaders who once met privately."[6] In 1996, the *Wall Street Journal* praised Greensboro Community College's job-training curriculum, which was redesigned with the help of area businesses and prepares

students to perform high-tech jobs in auto mechanics, textiles, and other industries. In addition, GTCC offers a Quick Jobs program that provides trainees with the basic skills required to find employment.

In Worcester, educational institutions formed UniverCity Partnership in 2005 to adopt strategies allowing higher education institutions to participate in economic growth by improving local purchasing, employment, real estate development, business incubation, and workforce development. Among its current efforts, the city is looking to attract more technology firms through the Worcester Polytechnic Institute Venture Forum. Universities also have also been involved in community

The University Park Partnership, the result of long-standing collaboration between Clark University and its surrounding community, focuses on neighborhood revitalization.

Figure 5
Share of Population 25 Years and Older. . .
Springfield and Peer Cities



Source: U.S. Bureau of the Census. County and City Data Book (1960), Decennial Census (1980 and 2000), American Community Survey (2005–2007).

Yale University, New Haven, CT

Yale University's Changing Role

Although Yale University was founded in New Haven over three centuries ago, the university has been deeply involved in fostering New Haven's overall development only in the past few decades. Before that, the University tended to isolate itself from the city's economic troubles, "retreat inside its walls and lock its doors."[10]

In the mid-1980s, Yale joined city economic development officials and corporate leaders to try to enhance New Haven's service-sector employment. One result was "New Haven 1990," a marketing proposal that grew out of conversations among development, business, and neighborhood representatives, and with experts from other cities that had undertaken similar initiatives, including Baltimore, Boston, and Indianapolis.

In the mid-1980s, Yale joined city economic development officials and corporate leaders to try to enhance New Haven's service-sector employment.

In 1991, Yale reached a formal agreement with the city of New Haven that marked a decisive turning point in the university's participation in civic affairs. The university agreed to pay the city $1.2 million a year (an amount equivalent to over 5 percent of the municipal budget) in recognition of fire protection services, and to put its golf course on the property tax rolls. Under the agreement, Yale also agreed to spend $50,000 annually for five years to fund The Center for the City, an organization aimed at tapping business, government, and other resources to attack the city's social problems. Yale's initiatives also included funding the following: redevelopment of four deteriorating blocks in the city's retail center; investment in a face-lift for the Broadway shopping strip; creation of a venture capital fund aimed at luring biotechnology companies to the Science Park incubator; payment of an annual $2,000 stipend (for up to 10 years) to any Yale employee buying a house in the city; and the resources to renovate four vacant storefronts on Park Street to house a Yale police substation and several student programs.[11]

By the mid-1990s, New Haven's economy seemed to be on a firmer footing. Biomedical industry and other projects developed in the city. Nonetheless, development experts see a need to broaden the economic base of the city even further. As an example of recent initiatives, in partnership with Yale University and the business community, the city of New Haven launched an Economic Development Corporation in February 2008 to operate as a one-stop center to attract new businesses and to retain existing businesses.

Table 4 Employment by Industry, 2005–07

Springfield and Peer Cities

	Percent of Total Employment of City Residents								
	Health care and social assistance	Manufacturing	Retail trade	Educational services	Leisure and hospitality	Professional and business services	Financial activities	Other services	All Other*
Resurgent cities									
Evansville	11.9	16.3	14.3	5.7	11.4	8.9	6.0	6.1	19.4
Fort Wayne	14.5	19.6	11.1	7.2	9.7	8.1	6.2	4.3	19.2
Grand Rapids	14.4	18.1	11.6	8.7	9.9	9.6	5.0	5.2	17.5
Greensboro	12.1	12.5	12.4	11.2	10.1	9.0	8.2	3.3	21.2
Jersey City	12.7	6.4	8.7	7.2	7.6	13.5	14.3	4.7	25.0
New Haven	17.1	9.9	10.2	20.0	8.3	8.6	5.1	5.7	15.2
Peoria	16.3	15.8	10.8	8.9	10.5	9.7	6.3	5.4	16.3
Providence	14.8	15.0	10.8	12.6	12.5	8.5	6.5	4.3	14.9
Winston-Salem	15.7	11.8	10.9	9.7	9.9	9.5	7.9	4.8	19.7
Worcester	16.0	11.2	12.8	11.6	9.3	9.1	6.3	5.1	18.7
Springfield	19.1	12.5	10.2	8.8	9.0	7.4	6.9	5.0	21.0
Peer City Averages									
All cities	16.1	14.4	11.9	9.3	9.9	8.6	6.0	5.0	18.9
Resurgent cities	14.5	13.7	11.4	10.3	9.9	9.5	7.2	4.9	18.7
Other peer cities	17.1	14.8	12.2	8.7	9.9	8.1	5.2	5.0	19.0

*Natural resources; Construction; Wholesale trade; Transportation and warehousing, and utilities; Information; and Government.

Source: U.S. Bureau of the Census. American Community Survey (2005–2007).

projects. For instance, the University Park Partnership, the result of long-standing collaboration between Clark University and its surrounding community, focuses on neighborhood revitalization.

Planning and re-evaluating are critical

Leadership and collaboration facilitated long-term planning that allowed the resurgent cities to develop more dynamic economies. Their transformation has proved to be a continuing process, and has required re-evaluating strategies and adapting to ongoing challenges.

Long-term planning

The city of Fort Wayne adopted a long-term economic development strategy in 2001 by working with community leaders and professionals in economic development. The Peoria Civic Federation, primarily composed of the leaders of the region's largest employers, sponsored the Greater Peoria Vision 2020, which was released in 2005 after a two-year planning process. Several community councils oversee the

implementation of master-plan areas such as quality of life, economic revitalization, youth and education, and leadership. In 2009, the city of Peoria sought community input on an updated comprehensive plan, which develops an overall vision for Peoria's growth and development over the next 10 to 20 years.

Grand Rapids has also benefited from working on long-term development plans and from coordination efforts across sectors. In 1992, the city launched "Voices & Visions," a planning process that involved a wide range of actors from the Grand Rapids City Commission to the Grand Rapids public schools to the private sector. The city's development plans were praised as rooted in community consensus by the National Civic League in 2003.

Another striking feature of resurgent cities' stories is the need for continuing innovations in overall development strategy.

Continuing adaptation

The resurgent cities also have illustrated the need to adapt to changing circumstances. In some cases, a given development strategy proved successful in some respects, but not in others. For example, working with the Chamber of Commerce and the University of Massachusetts, Worcester established the Massachusetts Biotechnology Research Institute (MBRI) in the 1980s in order to attract biotech companies. Despite the biotechnology industry boom, the city had to readapt its development approach because biotech companies often employ only small numbers of workers and take a long time to achieve profitability. In 1998, the MBRI changed its name to Massachusetts Biomedical Initiatives, as it launched efforts to attract medical devices companies that could become an important source of jobs.

Another striking feature of resurgent cities' stories is the need for continuing innovations in overall development strategy. In the 1980s, Fort Wayne adapted to the shutdown of its largest employer by attracting investments on the part of other large companies. More recently, however, the city's focus has been on becoming a stronger player in high-tech entrepreneurship. Greensboro succeeded in attracting service jobs, but is now actively recruiting higher paying employers in aerospace technology as a new engine for its economy. Peoria realized in the 1990s that building up its retail and service sectors was insufficient to bring about the desired rate of economic growth. The city turned to new strategies centered on medical research, technology, and entrepreneurship.

Infrastructure improvements and industry modernization matter

The stories of the resurgent cities involve fundamental shifts in local economies and human and physical infrastructure. Mid-sized cities that were once known for manufacturing items ranging from refrigerators and home furnishings to jewelry

Quinnipiac Terrace, Fair Haven, CT

and cigarettes have earned new identities. Many have turned to more technology-related forms of manufacturing for part of their transformation. Over the course of the last several decades, the resurgent cities have focused on modernizing their transportation and communications infrastructures by expanding regional airports, improving roads, and building high-speed broadband networks. Such infrastructure improvements have been important draws for manufacturing and nonmanufacturing firms alike.

Providence offers the most dramatic example of infrastructure makeovers to reconnect the downtown area with the rest of the city and to redevelop the waterfront. In Greensboro, the opening in 1982 of the Piedmont Triad International Airport terminal just west of the city set off a building boom in the city. By 2002, a "semiconductor cluster" of about 25 companies was thriving near Piedmont Triad International Airport. In Peoria, the state's overhaul of the city's highway system access and the construction of a new terminal at the Peoria International Airport improved manufacturers' and distributors' access to transportation. Transportation improvements in Worcester, such as the establishment of frequent commuter rail service to Boston and direct access to the Massachusetts Turnpike, encouraged new investments in the city.

Providence offers the most dramatic example of infrastructure makeovers to reconnect the downtown area with the rest of the city and to redevelop the waterfront area.

Resurgent cities have also recognized that downtown revitalization is an important step to create employment and attract residents. Several cities rely on nonprofit organizations exclusively created to develop and implement strategies to revitalize downtown areas. The city of Greensboro relies on the Downtown Greensboro Inc. nonprofit organization focusing entirely on downtown and more specifically on the business improvement district to continue developing the urban core. The Downtown Winston-Salem Partnership, a member and advocacy organization, is the lead organization implementing the downtown plan developed in 2007. Part of the revitalization plan includes the Restaurant Row Program, introduced by the city with federal and state support to help recruit and finance new eateries. The plan also calls for promoting Winston-Salem as the "City of the Arts" and for attracting businesses in the design industry.

Some cities not only built on their traditional strengths, but also succeeded in creating business clusters virtually from scratch. As noted, Grand Rapids set out in the 1990s to become a major center for health care in an initiative that has resulted in the creation of medical facilities and research institutions to form the "Medical Mile." Likewise, Peoria decided to focus on health care and medical technology, and is now gaining recognition as a "major medical powerhouse." Winston-Salem, once known internationally only for tobacco, chose to emphasize Internet connectivity and has gained renown for creativity and intelligence and has become the 11th-largest

banking center in the country, just behind Boston. Jersey City built up a finance cluster starting from a 1960 base that was not much larger than Springfield's. Evansville's tourism industry became an important driver of the economy with the opening and renovation of large convention centers in the early 1990s and the opening of one of the city's largest employers, the Aztar riverboat casino, in 1996.

Disadvantaged neighborhoods require specific focus

Despite their overall successes, the resurgent cities continue to struggle with extending prosperity to a broader share of their populations. Except for Fort Wayne, all had poverty rates exceeding 17 percent as of 2005–07. Some of the resurgent cities have implemented distinct efforts to improve opportunities for their poor and minority residents, and to narrow the differences between the haves and the have-nots. Although they are separate initiatives, these programs often adopt approaches similar to those used to generate prosperity more generally. Most importantly, they involve collaborations.

Despite their overall successes, the resurgent cities continue to struggle with extending prosperity to a broader share of their populations. Except for Fort Wayne, all had poverty rates exceeding 17 percent as of 2005–07.

The Providence Plan, a not-for-profit joint venture of the city of Providence, the state of Rhode Island, the academic community, and the private sector, focuses on children's well-being, workforce development, and community building. Its successful programs include Ready to Learn Providence, YouthBuild Providence, and the Local Learning Partnership.

For many years, the successful redevelopment of Jersey City's waterfront had little in the form of positive spillovers for poor neighborhoods. More recently, neighborhoods have worked with the city in implementing their own economic development projects. Residents of one of Jersey City's poorest neighborhoods, the Martin Luther King Drive, not only participated actively in writing their neighborhood development plan, but also controlled its implementation through a neighborhood development corporation. The plan received national and statewide awards and recognition for its innovative use of community outreach and implementation.

Direct involvement of the community in shaping planning efforts has proved to be important in creating comprehensive long-term strategies. In Grand Rapids, the city and the chamber of commerce have partnered with the Neighborhood Business Alliance (NBA) on several occasions to work on economic development strategies. Made up of representatives from all 20 neighborhood associations, NBA meets monthly to coordinate city-wide services, share best practices, and advocate on issues affecting neighborhood businesses and districts.

Baystate Medical Center contruction project, Springfield, MA

Springfield in Transition

Known as the "City of Firsts," Springfield was for many years the center of a prosperous two-hundred-mile industrial corridor in the Connecticut River Valley. Unfortunately, the city has suffered a steep economic decline since the 1960s. The closures of the Springfield Armory in 1968 and the American Bosch metal fabrication factory in 1986 are just two examples of the job losses in the city's manufacturing sector. Since the 1990s, expansion in the health care sector has filled some of the void produced by the departure of industrial jobs, but the city continues to struggle with identifying and attracting other potential sources of job growth within its borders.

In 2004, the dire condition of Springfield's finances prompted the state to appoint a Finance Control Board, which took over municipal spending decisions, focusing mainly on bringing expenditures into line with revenues. The Control Board also worked on strengthening the city's administrative capacity, in preparation for resuming normal municipal operations after the expiration of the Board's term in mid-2009.

In the past five years, organizations in and around Springfield have undertaken a number of initiatives to attract new investment to the area and to revitalize the city. For example, in 2004, the Pioneer Valley Planning Commission started overhauling the earlier Plan for Progress, a blueprint for growth and development of the regional economy.

Acknowledging their essential role in implementing workforce development programs and in creating and attracting businesses, educational institutions have become more active participants in economic renewal strategies. Springfield Technical Community College (STCC), in particular, has been a major contributor. The Entrepreneurial Institute at STCC, created in 1996, provides entrepreneurship education for students of all ages, while the STCC Technology Park has provided technology training and incubated new businesses.

Springfield-based educational institutions such as Springfield College (SC) and American International College (AIC) are also committed to the overall well-being of the city of Springfield and the neighborhoods where they are located. For example, both AIC and SC belong to the State Street Alliance, a large collaboration of institutions and residents overseeing the redevelopment of the major corridor running from downtown Springfield to points east. Based largely on a 2006 report by the Urban Land Institute, numerous revitalization projects are underway in the downtown area. Most recently, five major employers have partnered with the city and with lenders to promote homeownership in Springfield. The "Buy Springfield Now" initiative is modeled on a program started in 2008 to provide homeownership incentives in Worcester.

What are next steps for struggling cities?

Fifty years ago, it would have been virtually impossible for either the leaders or the residents of mid-sized U.S. cities to anticipate the full extent of challenges posed by deindustrialization, suburbanization, and other structural and economic changes. Other than starting from comparatively less dependence on manufacturing jobs, the cities that would resurge in later decades did not possess obvious advantages over their peers, however. Resurgence required the emergence of leaders who worked collaboratively with the various constituencies with a stake in economic development. Nonprofit entities—including universities and foundations—have taken active roles in revitalization. Resurgent cities have reinvented themselves, creating new industries and making major improvements to both human and physical capital. They have had to exercise both patience in planning for the long term and flexibility continually to revise these plans as circumstances warranted. For resurgent cities, perhaps the hardest task of all has been extending prosperity to a broader segment of their populations. These efforts have required community building and connecting communities to the other collaborators in economic development.

No research study is capable of laying out the agenda for a struggling city. The Federal Reserve Bank of Boston's "Toward a More Prosperous Springfield, MA" initiative has attempted to lay out reasonable aspirations for mid-sized cities whose economies were once heavily dependent on manufacturing jobs, and to add to the available information concerning the economic development approaches tried by their peers.

Although Springfield has taken constructive steps to turn around its economy (see "Springfield in Transition" box), and undoubtedly so have many of the other cities in the peer group, much work remains. We hope that these cities can adapt the lessons from the resurgent cities to their own situations. They might usefully consider how specific local groups could collaborate or form to promote and implement revitalization. In addition, they might be able to identify selected economic development efforts from their peer cities that have not been tried locally, and that are worth further consideration. Eventually, such actions are likely to lead to new stories of resurgence.

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[1] DeAnna Green, "Springfield, Massachusetts: Old Hill, Six Corners, and the South End neighborhoods," in *The Enduring Challenge of Concentrated Poverty in America: Case Studies from Communities Across the U.S.*, A Joint Project of the Community Affairs Offices of the Federal Reserve System and the Metropolitan Policy Program at the Brookings Institution, 2008. Available at http://www.frbsf.org/cpreport/.

[2] For full details see Yolanda K. Kodrzycki, Ana Patricia Muñoz et. al., "Reinvigorating Springfield's Economy: Lessons from Resurgent Cities," Federal Reserve Bank of Boston Public Policy Discussion Paper No. 09-6, 2009. Available at http://www.bos.frb.org/economic/ppdp/2009/ppdp0906.htm.

[3] Econometric studies have demonstrated that U.S. cities that depended heavily on manufacturing in the past have tended to have relatively low rates of economic growth in recent

decades. See, for example, Edward L. Glaeser, José A. Scheinkman, and Andrei Shleifer, "Economic Growth in a Cross-Section of Cities," *Journal of Monetary Economics*, vol. 36, issue 1 (1995), pp. 117-143, and Edward L. Glaeser, Albert Saiz, Gary Burtless, and William C. Strange, "The Rise of the Skilled City," Brookings-Wharton Papers on Urban Affairs, 2004, pp. 47-94.

[4] Marion Orr and Darrell M. West, "Citizens' Views on Urban Revitalization: The Case of Providence, Rhode Island," *Urban Affairs Review* 37, issue 3 (2002), p. 404.

[5] Grover G. Norquist, "Jersey City on the Way Back," *The Washington Times*, July 22, 1996.

[6] "Rebuilding from Within; Knowledge, Innovation Form Base of Greensboro's New Economy," *Greensboro News & Record*, April 13, 2008.

[7] Founded in 1977, Partners for Livable Communities is a nonprofit leadership organization that promotes quality of life, economic development, and social equity. See "Recent Award Recognizes City's Achievements," *Winston-Salem Journal*, May 29, 2004.

[8] For a city to be on the list, it has to excel in one of the following factors: broadband connectivity, knowledge workforce, digital inclusion, innovation, or marketing and advocacy.

[9] *Expansion Management* magazine asked over 80 prominent site location consultants to list their top city choices for relocating and expanding companies, taking into consideration such factors as the business climate, work force quality, operating costs, incentive programs, and ease of working with local political and economic development officials.

[10] "Focusing on Private Redevelopment, Not Public Urban Renewal," *Washington Post*, October 29, 1989.

[11] These initiatives were promoted by Richard C. Levin, a Yale economist who lived in New Haven for 23 years and became the university's president in 1993.

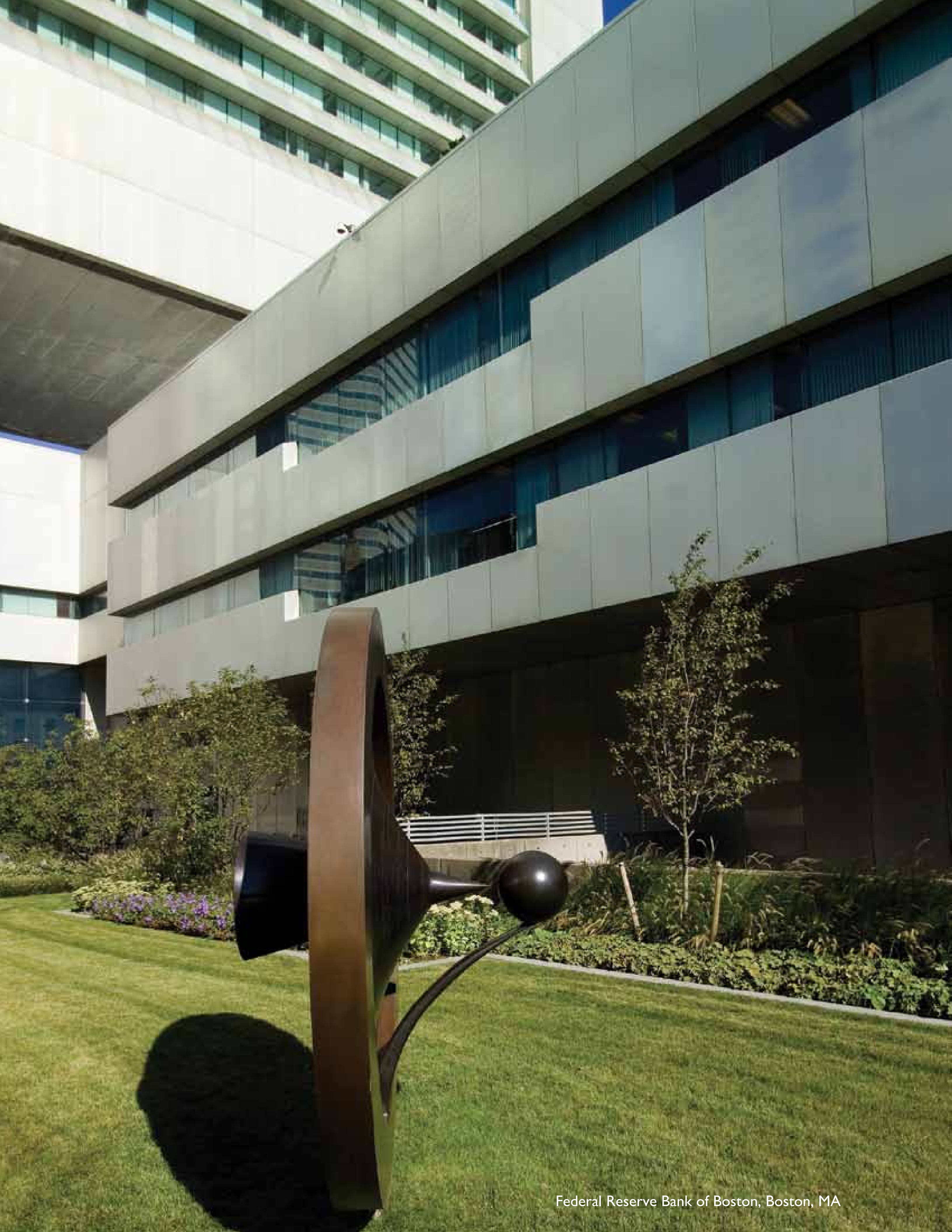
Downtown, Providence, RI

Federal Courthouse, Springfield, MA

The Bank in the Community

While many responsibilities of the Federal Reserve Bank of Boston are regional, national, and global in scope, the Bank also seeks to share its expertise with the communities throughout its district in a variety of outreach activities. In addition, Bank staff are engaged in the local community, working and volunteering on many projects and initiatives.

- United Way of Massachusetts Bay
- Community Care Day
- Foreclosure Prevention Workshops with HOPE NOW and NeighborWorks
- Cradles to Crayons
- Homeless Children's Holiday Party
- Boston Earned Income Tax Credit Campaign
- Workforce Development
- Books and Kids Program
- Math and Kids Program
- Citizen Schools
- Operation Hope
- LifeSmarts – National Consumer League Program
- Massachusetts School Bank Association
- Boston Private Industry Council
- Excel High School Partnership
    - FinTech Scholars Program
    - Job Shadow Day
    - Boston After School Jobs Program
    - Boston Summer Jobs Program
        - WriteBoston
        - Classroom at the Workplace



Federal Reserve Bank of Boston, Boston, MA

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).

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Sharon Conard Wells
Executive Director
West Elmwood Housing
Development Corporation

City Hall, Springfield, MA

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Robert Tannenwald
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Prabal Chakrabarti
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Elaine Zetes
Assistant Vice President
and Assistant Corporate Secretary

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Senior Vice President and General Counsel

David K. Park
Vice President, Deputy General Counsel, and Corporate Secretary

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Patricia Allouise
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Mary Hughes Bickerton
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and Assistant General Counsel

Krista M. Blair
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Barry K. Maddix
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Lisa A. Wright
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and Assistant General Counsel

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James T. Nolan
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Director of Supervision, Regulation and Credit

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Assistant Vice President

Kevin J. Rivard
Assistant Vice President

Michael T. Stewart
Assistant Vice President

Ralph A. Ventresco
Assistant Vice President

Bank Mission

As part of the nation's central bank, the Federal Reserve Bank of Boston promotes sound growth and financial stability in New England and the nation.

The Bank contributes to local communities, the region, and the nation through its high-quality research, regulatory oversight, and financial services, and through its commitment to leadership and innovation.

Financial Statements

Yale University, New Haven, CT

April 21, 2010

To the Board of Directors

The management of the Federal Reserve Bank of Boston ("FRBB") is responsible for the preparation and fair presentation of the Statement of Financial Condition, Statements of Income and Comprehensive Income, and Statement of Changes in Capital as of December 31, 2009 (the "Financial Statements"). The Financial Statements have been prepared in conformity with the accounting principles, policies, and practices established by the Board of Governors of the Federal Reserve System and as set forth in the Financial Accounting Manual for the Federal Reserve Banks ("Manual"), and as such, include amounts, some of which are based on management judgments and estimates. To our knowledge, the Financial Statements are, in all material respects, fairly presented in conformity with the accounting principles, policies and practices documented in the Manual and include all disclosures necessary for such fair presentation.

The management of the FRBB is responsible for establishing and maintaining effective internal control over financial reporting as it relates to the Financial Statements. Such internal control is designed to provide reasonable assurance to management and to the Board of Directors regarding the preparation of the Financial Statements in accordance with the Manual. Internal control contains self-monitoring mechanisms, including, but not limited to, divisions of responsibility and a code of conduct. Once identified, any material deficiencies in internal control are reported to management and appropriate corrective measures are implemented.

Even effective internal control, no matter how well designed, has inherent limitations, including the possibility of human error, and therefore can provide only reasonable assurance with respect to the preparation of reliable financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The management of the FRBB assessed its internal control over financial reporting reflected in the Financial Statements, based upon the criteria established in the "Internal Control -- Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we believe that the FRBB maintained effective internal control over financial reporting as it relates to the Financial Statements.

Eric S. Rosengren, President

Paul M. Connolly, First Vice President

Jon D. Colvin, Chief Financial Officer

To the Board of Governors of the Federal Reserve System
and the Board of Directors of the Federal Reserve Bank of Boston:

We have audited the accompanying statements of condition of the Federal Reserve Bank of Boston ("FRB Boston") as of December 31, 2009 and 2008 and the related statements of income and comprehensive income, and changes in capital for the years then ended, which have been prepared in conformity with accounting principles established by the Board of Governors of the Federal Reserve System. We also have audited the internal control over financial reporting of FRB Boston as of December 31, 2009, based on criteria established in *Internal Control— Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. FRB Boston's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report On Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on these financial statements and an opinion on FRB Boston's internal control over financial reporting based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

FRB Boston's internal control over financial reporting is a process designed by, or under the supervision of, FRB Boston's principal executive and principal financial officers, or persons performing similar functions, and effected by FRB Boston's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the accounting principles established by the Board of Governors of the Federal Reserve System. FRB Boston's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of FRB Boston; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the accounting principles established by the Board of Governors of the Federal Reserve System, and that receipts and expenditures of FRB Boston are being made only in accordance with authorizations of management and directors of FRB Boston; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of FRB Boston's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Note 4 to the financial statements, FRB Boston has prepared these financial statements in conformity with accounting principles established by the Board of Governors of the Federal Reserve System, as set forth in the *Financial Accounting Manual for Federal Reserve Banks*, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The effects on such financial statements of the differences between the accounting principles established by the Board of Governors of the Federal Reserve System and accounting principles generally accepted in the United States of America are also described in Note 4.

In our opinion, such financial statements present fairly, in all material respects, the financial position of FRB Boston as of December 31, 2009 and 2008, and the results of its operations for the years then ended, on the basis of accounting described in Note 4. Also, in our opinion, FRB Boston maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Boston, Massachusetts
April 21, 2010

Statements of Condition

As of December 31, 2009 and December 31, 2008 (in millions)

	2009	2008
Assets		
Gold certificates	$ 412	$ 424
Special drawing rights certificates	196	115
Coin	64	56
Items in process of collection	19	41
Loans to depository institutions	4,161	16,393
Other loans	–	23,765
System Open Market Account:		
Securities purchased under agreements to resell	–	3,355
Treasury securities, net	15,461	20,194
Government-sponsored enterprise debt securities, net	3,211	870
Federal agency and government-sponsored enterprise mortgage-backed securities, net	17,628	–
Investments denominated in foreign currencies	1,012	1,411
Central bank liquidity swaps	411	31,498
Accrued interest receivable	243	447
Interdistrict settlement account	25,668	–
Bank premises and equipment, net	143	144
Other assets	27	28
Total assets	$ 68,656	$ 98,741
Liabilities and Capital		
Federal Reserve notes outstanding, net	$ 32,169	$ 32,872
System Open Market Account:		
Securities sold under agreements to repurchase	1,491	3,706
Other liabilities	12	–
Deposits:		
Depository institutions	32,934	49,810
Other deposits	9	27
Deferred credit items	56	69
Accrued interest on Federal Reserve notes	1	213
Interdistrict settlement account	–	10,264
Interest due to depository institutions	2	10
Accrued benefit costs	86	73
Other liabilities	8	9
Total liabilities	66,768	97,053
Capital paid-in	944	844
Surplus (including accumulated other comprehensive loss of $20 million and $10 million at December 31, 2009 and 2008, respectively)	944	844
Total capital	1,888	1,688
Total liabilities and capital	$ 68,656	$ 98,741

The accompanying notes are an integral part of these financial statements.

Statements of Income and Comprehensive Income

For the years ended December 31, 2009 and December 31, 2008 (in millions)

	2009	2008
Interest Income		
Loans to depository institutions	$ 34	$ 84
Other loans	73	470
System Open Market Account:		
Securities purchased under agreements to resell	1	81
Treasury securities	546	1,110
Government-sponsored enterprise debt securities	45	4
Federal agency and government-sponsored enterprise mortgage-backed securities	423	–
Investments denominated in foreign currencies	12	34
Central bank liquidity swaps	96	202
Total interest income	1,230	1,985
Interest Expense		
System Open Market Account:		
Securities sold under agreements to repurchase	3	32
Depository institution deposits	77	55
Total interest expense	80	87
Net interest income	1,150	1,898
Non-Interest Income		
System Open Market Account:		
Treasury securities gains	–	168
Federal agency and government-sponsored enterprise mortgage-backed securities gains, net	10	–
Foreign currency (losses) gains, net	(7)	56
Compensation received for services provided	21	31
Reimbursable services to government agencies	29	27
Other income	21	49
Total non-interest income	74	331
Operating Expenses		
Salaries and other benefits	110	107
Occupancy expense	23	20
Equipment expense	11	11
Assessments by the Board of Governors	42	47
Other expenses	27	37
Total operating expenses	213	222
Net income prior to distribution	1,011	2,007
Change in funded status of benefit plans	(10)	(7)
Comprehensive income prior to distribution	$ 1,001	$ 2,000
Distribution of comprehensive income:		
Dividends paid to member banks	$ 55	$ 55
Transferred to (from) surplus and change in accumulated other comprehensive loss	100	(205)
Payments to Treasury as interest on Federal Reserve notes	846	2,150
Total distribution	$ 1,001	$ 2,000

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Capital

For the years ended December 31, 2009 and December 31, 2008 (in millions, except share data)

		Surplus			
	Capital paid-in	Net income retained	Accumulated other comprehensive loss	Total surplus	Total capital
Balance at January 1, 2008 (20,989,418 shares)	$ 1,049	$ 1,052	$ (3)	$ 1,049	$ 2,098
Net change in capital stock redeemed (4,103,969 shares)	(205)	–	–	–	(205)
Transferred from surplus and change in accumulated other comprehensive loss	–	(198)	(7)	(205)	(205)
Balance at December 31, 2008 (16,885,449 shares)	$ 844	$ 854	$ (10)	$ 844	$ 1,688
Net change in capital stock issued (2,002,898 shares)	100	–	–	–	100
Transferred to surplus and change in accumulated other comprehensive loss	–	110	(10)	100	100
Balance at December 31, 2009 (18,888,347 shares)	$ 944	$964	$ (20)	$ 944	$ 1,888

The accompanying notes are an integral part of these financial statements.

1. STRUCTURE

The Federal Reserve Bank of Boston ("Bank") is part of the Federal Reserve System ("System") and is one of the twelve Federal Reserve Banks ("Reserve Banks") created by Congress under the Federal Reserve Act of 1913 ("Federal Reserve Act"), which established the central bank of the United States. The Reserve Banks are chartered by the federal government and possess a unique set of governmental, corporate, and central bank characteristics. The Bank serves the First Federal Reserve District, which includes the states of Maine, Massachusetts, New Hampshire, Rhode Island, Vermont, and a portion of the state of Connecticut.

In accordance with the Federal Reserve Act, supervision and control of the Bank is exercised by a board of directors. The Federal Reserve Act specifies the composition of the board of directors for each of the Reserve Banks. Each board is composed of nine members serving three-year terms: three directors, including those designated as chairman and deputy chairman, are appointed by the Board of Governors of the Federal Reserve System ("Board of Governors") to represent the public, and six directors are elected by member banks. Banks that are members of the System include all national banks and any state-chartered banks that apply and are approved for membership. Member banks are divided into three classes according to size. Member banks in each class elect one director representing member banks and one representing the public. In any election of directors, each member bank receives one vote, regardless of the number of shares of Reserve Bank stock it holds.

In addition to the 12 Reserve Banks, the System also consists, in part, of the Board of Governors and the Federal Open Market Committee ("FOMC"). The Board of Governors, an independent federal agency, is charged by the Federal Reserve Act with a number of specific duties, including general supervision over the Reserve Banks. The FOMC is composed of members of the Board of Governors, the president of the Federal Reserve Bank of New York ("FRBNY"), and, on a rotating basis, four other Reserve Bank presidents.

2. OPERATIONS AND SERVICES

The Reserve Banks perform a variety of services and operations. These functions include participating in formulating and conducting monetary policy; participating in the payments system, including large-dollar transfers of funds, automated clearinghouse ("ACH") operations, and check collection; distributing coin and currency; performing fiscal agency functions for the U.S. Department of the Treasury ("Treasury"), certain Federal agencies, and other entities; serving as the federal government's bank; providing short-term loans to depository institutions; providing loans to individuals, partnerships, and corporations in unusual and exigent circumstances; serving consumers and communities by providing educational materials and information regarding financial consumer protection rights and laws and information on community development programs and activities; and supervising bank holding companies, state member banks, and U.S. offices of foreign banking organizations. Certain services are provided to foreign and international monetary authorities, primarily by the FRBNY.

The FOMC, in conducting monetary policy, establishes policy regarding domestic open market operations, oversees these operations, and annually issues authorizations and directives to the FRBNY to execute transactions. The FOMC authorizes and directs the FRBNY to conduct operations in domestic markets, including the direct purchase and sale of Treasury securities, Federal agency and government-sponsored enterprise ("GSE") debt securities, Federal agency and GSE mortgage-backed securities ("MBS"), the purchase of these securities under agreements to resell, and the sale of these securities under agreements to repurchase. The FRBNY executes these transactions at the direction of the FOMC and holds the resulting securities and agreements in a portfolio known as the System Open Market Account ("SOMA"). The FRBNY is authorized to lend the Treasury securities and Federal agency and GSE debt securities that are held in the SOMA.

In addition to authorizing and directing operations in the domestic securities market, the FOMC authorizes the FRBNY to execute operations in foreign markets in order to counter disorderly conditions in exchange markets or to meet other needs specified by the FOMC to carry out the System's central bank responsibilities. Specifically, the FOMC authorizes and directs the FRBNY to hold balances of, and to execute spot and forward foreign exchange and securities contracts for, fourteen foreign currencies and to invest such foreign currency holdings, while maintaining adequate liquidity. The FRBNY is authorized and directed by the FOMC to maintain reciprocal currency arrangements ("FX swaps") with two central banks and to "warehouse" foreign currencies for the Treasury and the Exchange Stabilization Fund ("ESF"). The FRBNY is also authorized and directed by the FOMC to maintain U.S. dollar currency liquidity swap arrangements with fourteen central banks. The FOMC has also authorized the FRBNY to maintain foreign currency liquidity swap arrangements with four foreign central banks.

Although the Reserve Banks are separate legal entities, they collaborate in the delivery of certain services to achieve greater efficiency and effectiveness. This collaboration takes the form of centralized operations and product or function offices that have responsibility for the delivery of certain services on behalf of the Reserve Banks. Various operational and management models are used and are supported by service agreements between the Reserve Banks. In some cases, costs incurred by a Reserve Bank for services provided to other Reserve Banks are not shared; in other cases, the Reserve Banks are reimbursed for costs incurred in providing services to other Reserve Banks.

Major services provided by the Bank on behalf of the System and for which the costs were not reimbursed by the other Reserve Banks include Internet and Directory Services, Financial Support Office, and Centralized Accounting Technology Services. A portion of the Centralized Accounting Technology Service costs related to services provided to the System in support of the electronic access channel is redistributed to the Federal Reserve Bank of Chicago. The Bank's total reimbursement for these services was $2 million for each of the years ended December 31, 2009 and 2008, and is included in "Other Income" on the Statements of Income and Comprehensive Income.

3. FINANCIAL STABILITY ACTIVITIES

The Reserve Banks have implemented the following programs that support the liquidity of financial institutions and foster improved conditions in financial markets.

Expanded Open Market Operations and Support for Mortgage Related-Securities

The Single-Tranche Open Market Operation Program allows primary dealers to initiate a series of 28-day term repurchase transactions while pledging Treasury securities, Federal agency and GSE debt securities, and Federal agency and GSE MBS as collateral.

The Federal Agency and GSE Debt Securities and MBS Purchase Program provide support to the mortgage and housing markets and foster improved conditions in financial markets. Under this program, the FRBNY purchases housing-related GSE debt securities and Federal agency and GSE MBS. Purchases of housing-related GSE debt securities began in November 2008 and purchases of Federal agency and GSE MBS began in January 2009. The FRBNY is authorized to purchase up to $200 billion in fixed rate, non-callable GSE debt securities and up to $1.25 trillion in fixed rate Federal agency and GSE MBS. The activities of both of these programs are allocated to the other Reserve Banks.

Central Bank Liquidity Swaps

The FOMC authorized and directed the FRBNY to establish central bank liquidity swap arrangements, which may be structured as either U.S. dollar liquidity or foreign currency liquidity swap arrangements.

U.S. dollar liquidity swap arrangements were authorized with fourteen foreign central banks to provide liquidity in U.S. dollars to overseas markets. Such arrangements were authorized with the following central banks: the Reserve Bank of Australia, the Banco Central do Brasil, the Bank of Canada, Danmarks Nationalbank, the Bank of England, the European Central Bank, the Bank of Japan, the Bank of Korea, the Banco de Mexico, the Reserve Bank of New Zealand, Norges Bank, the Monetary Authority of Singapore, the Sveriges Riksbank, and the Swiss National Bank. The maximum amount that could be drawn under these swap arrangements varied by central bank. The authorization for these swap arrangements expired on February 1, 2010.

Foreign currency liquidity swap arrangements provided the Reserve Banks with the capacity to offer foreign currency liquidity to U.S. depository institutions. Such arrangements were authorized with the Bank of England, the European Central Bank, the Bank of Japan, and the Swiss National Bank. The maximum amount that could be drawn under the swap arrangements varies by central bank. The authorization for these swap arrangements expired on February 1, 2010.

Lending to Depository Institutions

The Term Auction Facility ("TAF") promotes the efficient dissemination of liquidity by providing term funds to depository institutions. Under the TAF, Reserve Banks auction term funds to depository institutions against any collateral eligible to secure primary, secondary, and seasonal credit less a margin, which is a reduction in the assigned collateral value that is intended to provide the Banks additional credit protection. All depository institutions that are considered to be in generally sound financial condition by their Reserve Bank and that are eligible to borrow under the primary credit program are eligible to participate in TAF auctions. All loans must be collateralized to the satisfaction of the Reserve Banks.

Lending to Primary Dealers

The Term Securities Lending Facility ("TSLF") promoted liquidity in the financing markets for Treasury securities. Under the TSLF, the FRBNY could lend up to an aggregate amount of $200 billion of Treasury securities held in the SOMA to primary dealers secured for a term of 28 days. Securities were lent to primary dealers through a competitive single-price auction and were collateralized, less a margin, by a pledge of other securities, including Treasury securities, municipal securities, Federal agency and GSE MBS, non-agency AAA/Aaa-rated private-label residential MBS, and asset-backed securities ("ABS"). The authorization for the TSLF expired on February 1, 2010.

The Term Securities Lending Facility Options Program ("TOP") offered primary dealers, through a competitive single-price auction, to purchase an option to draw upon short-term, fixed-rate TSLF loans in exchange for eligible collateral. The program enhanced the effectiveness of the TSLF by ensuring additional liquidity during periods of heightened collateral market pressures, such as around quarter-end dates. The program was suspended effective with the maturity of the June 2009 TOP options and the program authorization expired on February 1, 2010.

Other Lending Facilities

The Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility ("AMLF") provided funding to depository institutions and bank holding companies to finance the purchase of eligible high-quality asset-backed commercial paper ("ABCP") from money market mutual funds. The program assisted money market mutual funds that hold such paper to meet the demands for investor redemptions and to foster liquidity in the ABCP market and money markets more generally. The Bank administered the AMLF and was authorized to extend these loans to eligible borrowers on behalf of the other Reserve Banks. All loans extended under the AMLF were non-recourse and were recorded as assets by the Bank and loans extended to borrowers that settle to depository accounts in other Districts were processed through the interdistrict settlement account. The credit risk related to the AMLF was assumed by the Bank. The authorization for the AMLF expired on February 1, 2010.

4. SIGNIFICANT ACCOUNTING POLICIES

Accounting principles for entities with the unique powers and responsibilities of a nation's central bank have not been formulated by accounting standard-setting bodies. The Board of Governors has developed specialized accounting principles and practices that it considers to be appropriate for the nature and function of a central bank. These accounting principles and practices are documented in the Financial Accounting Manual for Federal Reserve Banks ("Financial Accounting Manual" or "FAM"), which is issued by the Board of Governors. The Reserve Banks are required to adopt and apply accounting policies and practices that are consistent with the FAM and the financial statements have been prepared in accordance with the FAM.

Limited differences exist between the accounting principles and practices in the FAM and generally accepted accounting principles in the United States ("GAAP"), primarily due to the unique nature of the Bank's powers and responsibilities as part of the nation's central bank. The primary difference is the presentation of all SOMA securities holdings at amortized cost rather than the fair value presentation required by GAAP. Treasury securities, GSE debt securities, Federal agency and GSE MBS, and investments denominated in foreign currencies comprising the SOMA are recorded at cost, on a settlement-date basis rather than the trade-date basis required by GAAP. The cost basis of Treasury securities, GSE debt securities, and foreign government debt instruments is adjusted for amortization of premiums or accretion of discounts on a straight-line basis. Amortized cost more appropriately reflects the Bank's securities holdings given the System's unique responsibility to conduct monetary policy. Accounting for these securities on a settlement-date basis more appropriately reflects the timing of the transaction's effect on the quantity of reserves in the banking system. Although the application of fair value measurements to the securities holdings may result in values substantially above or below their carrying values, these unrealized changes in value have no direct effect on the quantity of reserves available to the banking system or on the prospects for future Bank earnings or capital. Both the domestic and foreign components of the SOMA portfolio may involve transactions that result in gains or losses when holdings are sold prior to maturity. Decisions regarding securities and foreign currency transactions, including their purchase and sale, are motivated by monetary policy objectives rather than profit. Accordingly, fair values, earnings, and gains or losses resulting from the sale of such securities and currencies are incidental to the open market operations and do not motivate decisions related to policy or open market activities.

In addition, the Bank has elected not to present a Statement of Cash Flows because the liquidity and cash position of the Bank are not a primary concern given the Reserve Banks' unique powers and responsibilities. Other information regarding the Bank's activities is provided in, or may be derived from, the Statements of Condition, Income and Comprehensive Income, and Changes in Capital. There are no other significant differences between the policies outlined in the FAM and GAAP.

Preparing the financial statements in conformity with the FAM requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Certain amounts relating to the prior year have been reclassified to conform to the current-year presentation. Unique accounts and significant accounting policies are explained below.

a. Gold and Special Drawing Rights Certificates

The Secretary of the Treasury is authorized to issue gold and special drawing rights ("SDR") certificates to the Reserve Banks.

Payment for the gold certificates by the Reserve Banks is made by crediting equivalent amounts in dollars into the account established for the Treasury. The gold certificates held by the Reserve Banks are required to be backed by the gold of the Treasury. The Treasury may reacquire the gold certificates at any time and the Reserve Banks must deliver them to the Treasury. At such time, the Treasury's account is charged, and the Reserve Banks' gold certificate accounts are reduced. The value of gold for purposes of backing the gold certificates is set by law at $42 2/9 per fine troy ounce. The Board of Governors allocates the gold certificates among the Reserve Banks once a year based on the average Federal Reserve notes outstanding in each Reserve Bank.

SDR certificates are issued by the International Monetary Fund (the "Fund") to its members in proportion to each member's quota in the Fund at the time of issuance. SDR certificates serve as a supplement to international monetary reserves and may be transferred from one national monetary authority to another. Under the law providing for U.S. participation in the SDR system, the Secretary of the Treasury is authorized to issue SDR certificates to the Reserve Banks. When SDR certificates are issued to the Reserve Banks, equivalent amounts in U.S. dollars are credited to the account established for the Treasury and the Reserve Banks' SDR certificate accounts are increased. The Reserve Banks are required to purchase SDR certificates, at the direction of the Treasury, for the purpose of financing SDR acquisitions or for financing exchange stabilization operations. At the time SDR transactions occur, the Board of Governors allocates SDR certificate transactions among the Reserve Banks based upon each Reserve Bank's Federal Reserve notes outstanding at the end of the preceding year. There were no SDR transactions in 2008, and in 2009 the Treasury issued $3 billion in SDR certificates to the Reserve Banks, of which $81 million was allocated to the Bank.

b. Loans to Depository Institutions and Other Loans

Loans are reported at their outstanding principal balances and interest income is recognized on an accrual basis.

Loans are impaired when, based on current information and events, it is probable that the Bank will not receive the principal or interest that is due in accordance with the contractual terms of the loan agreement. Loans are evaluated to determine whether an allowance for loan loss is required. The Bank has developed procedures for assessing the adequacy of any allowance for loan losses using all available information to reflect the assessment of credit risk. This assessment includes monitoring information obtained from banking supervisors, borrowers, and other sources to assess the credit condition of the borrowers and, as appropriate, evaluating collateral values for each program. Generally, the Bank discontinues recognizing interest income on impaired loans until the borrower's repayment performance demonstrates principal and interest will be received in accordance with the term of the loan agreement. If the Bank discontinues recording interest on an impaired loan, cash payments are first applied to principal until the loan balance is reduced to zero; subsequent payments are applied as recoveries of amounts previously deemed uncollectible, if any, and then as interest income.

c. Securities Purchased Under Agreements to Resell, Securities Sold Under Agreements to Repurchase, and Securities Lending

The FRBNY may engage in purchases of securities with primary dealers under agreements to resell ("repurchase transactions"). These repurchase transactions are typically executed through a tri-party arrangement ("tri-party transactions"). Tri-party transactions are conducted with two commercial custodial banks that manage the clearing, settlement, and pledging of collateral. The collateral pledged must exceed the principal amount of the transaction. Acceptable collateral under tri-party repurchase transactions primarily includes Treasury securities; pass-through mortgage securities of Fannie Mae, Freddie Mac, and Ginnie Mae; STRIP Treasury securities; and "stripped" securities of Federal agencies. The tri-party transactions are accounted for as financing transactions with the associated interest income accrued over the life of the transaction. Repurchase transactions are reported at their contractual amount as "System Open Market Account: Securities purchased under agreements to resell" in the Statements of Condition and the related accrued interest receivable is reported as a component of "Accrued interest receivables."

The FRBNY may engage in sales of securities with primary dealers under agreements to repurchase ("reverse repurchase transactions"). These reverse repurchase transactions may be executed through a tri-party arrangement, similar to repurchase transactions. Reverse repurchase transac-

tions may also be executed with foreign official and international accounts. Reverse repurchase transactions are accounted for as financing transactions, and the associated interest expense is recognized over the life of the transaction. These transactions are reported at their contractual amounts in the Statements of Condition and the related accrued interest payable is reported as a component of "Other liabilities."

Treasury securities and GSE debt securities held in the SOMA are lent to primary dealers to facilitate the effective functioning of the domestic securities market. Overnight securities lending transactions are fully collateralized by other Treasury securities. TSLF transactions are fully collateralized with investment-grade debt securities, collateral eligible for tri-party repurchase agreements arranged by the FRBNY, or both. The collateral taken in both overnight and term securities lending transactions is in excess of the fair value of the securities lent. The FRBNY charges the primary dealer a fee for borrowing securities, and these fees are reported as a component of "Other income." In addition, TOP fees are reported as a component of "Other income."

Activity related to securities purchased under agreements to resell, securities sold under agreements to repurchase, and securities lending is allocated to each of the Reserve Banks on a percentage basis derived from an annual settlement of the interdistrict settlement account that occurs in April each year. The settlement also equalizes Reserve Bank gold certificate holdings to Federal Reserve notes outstanding in each District.

d. Treasury Securities; Government-Sponsored Enterprise Debt Securities; Federal Agency and Government-Sponsored Enterprise Mortgage-Backed Securities; Investments Denominated in Foreign Currencies; and Warehousing Agreements

Interest income on Treasury securities, GSE debt securities, and investments denominated in foreign currencies comprising the SOMA is accrued on a straight-line basis. Interest income on Federal agency and GSE MBS is accrued using the interest method and includes amortization of premiums, accretion of discounts, and paydown gains or losses. Paydown gains or losses result from scheduled payment and prepayment of principal and represent the difference between the principal amount and the carrying value of the related security. Gains and losses resulting from sales of securities are determined by specific issue based on average cost.

In addition to outright purchases of Federal agency and GSE MBS that are held in the SOMA, the FRBNY enters into dollar roll transactions ("dollar rolls"), which primarily involve an initial transaction to purchase or sell "to be announced" ("TBA") MBS combined with an agreement to sell or purchase TBA MBS on a specified future date. The FRBNY's participation in the dollar roll market furthers the MBS Purchase Program goal of providing support to the mortgage and housing markets and fostering improved conditions in financial markets. The FRBNY accounts for outstanding commitments to sell or purchase TBA MBS on a settlement-date basis. Based on the terms of the FRBNY dollar roll transactions, transfers of MBS upon settlement of the initial TBA MBS transactions are accounted for as purchases or sales in accordance with FASB ASC Topic 860 (ASC 860), *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*, (previously SFAS 140), and the related outstanding commitments are accounted for as sales or purchases upon settlement.

Activity related to Treasury securities, GSE debt securities, and Federal agency and GSE MBS, including the premiums, discounts, and realized gains and losses, is allocated to each Reserve Bank on a percentage basis derived from an annual settlement of the interdistrict settlement account that occurs in April of each year. The settlement also equalizes Reserve Bank gold certificate holdings to Federal Reserve notes outstanding in each District. Activity related to investments denominated in foreign currencies, including the premiums, discounts, and realized and unrealized gains and losses, is allocated to each Reserve Bank based on the ratio of each Reserve Bank's capital and surplus to aggregate capital and surplus at the preceding December 31.

Foreign-currency-denominated assets are revalued daily at current foreign currency market exchange rates in order to report these assets in U.S. dollars. Realized and unrealized gains and losses on investments denominated in foreign currencies are reported as "Foreign currency gains or losses, net" in the Statements of Income and Comprehensive Income.

Warehousing is an arrangement under which the FOMC agrees to exchange, at the request of the Treasury, U.S. dollars for foreign currencies held by the Treasury or ESF over a limited period of time. The purpose of the warehousing facility is to supplement the U.S. dollar resources of the Treasury and ESF for financing purchases of foreign currencies and related international operations.

Warehousing agreements are designated as held-for-trading purposes and are valued daily at current market exchange rates. Activity related to these agreements is allocated to each Reserve Bank based on the ratio of each Reserve Bank's capital and surplus to aggregate capital and surplus at the preceding December 31.

e. Central Bank Liquidity Swaps

Central bank liquidity swaps, which are transacted between the FRBNY and a foreign central bank, may be structured as either U.S. dollar liquidity or foreign currency liquidity swap arrangements.

Activity related to U.S. dollar and foreign currency swap transactions, including the related income and expense, is allocated to each Reserve Bank based on the ratio of each Reserve Bank's capital and surplus to aggregate capital and surplus at the preceding December 31. Similar to investments denominated in foreign currencies, the foreign currency amounts associated with these central bank liquidity swap arrangements are revalued at current foreign currency market exchange rates.

U.S. dollar liquidity swaps

At the initiation of each U.S. dollar liquidity swap transaction, the foreign central bank transfers a specified amount of its currency to a restricted account for the FRBNY in exchange for U.S. dollars at the prevailing market exchange rate. Concurrent with this transaction, the FRBNY and the foreign central bank agree to a second transaction that obligates the foreign central bank to return the U.S. dollars and the FRBNY to return the foreign currency on a specified future date at the same exchange rate as the initial transaction. The Bank's allocated portion of the foreign currency amounts that the FRBNY acquires is reported as "Central bank liquidity swaps" on the Statements of Condition. Because the swap transaction will be unwound at the same U.S. dollar amount and exchange rate that were used in the initial transaction, the recorded value of the foreign currency amounts is not affected by changes in the market exchange rate.

The foreign central bank compensates the FRBNY based on the foreign currency amounts held for the FRBNY. The FRBNY recognizes compensation during the term of the swap transaction and reports it as "Interest income: Central bank liquidity swaps" in the Statements of Income and Comprehensive Income.

Foreign currency liquidity swaps

At the initiation of each foreign currency liquidity swap transaction, the FRBNY transfers, at the prevailing market exchange rate, a specified amount of U.S. dollars to an account for the foreign central bank in exchange for its currency. The foreign currency amount received would be reported as a liability by the Bank. Concurrent with this transaction, the FRBNY and the foreign central bank agree to a second transaction that obligates the FRBNY to return the foreign currency and the foreign central bank to return the U.S. dollars on a specified future date. The FRBNY compensates the foreign central bank based on the foreign currency transferred to the FRBNY. For each foreign currency swap transaction with a foreign central bank it is anticipated that the FRBNY will enter into a corresponding transaction with a U.S. depository institution in order to provide foreign currency liquidity to that institution. No foreign currency liquidity swap transactions occurred in 2008 or 2009.

f. Interdistrict Settlement Account

At the close of business each day, each Reserve Bank aggregates the payments due to or from other Reserve Banks. These payments result from transactions between the Reserve Banks and transactions that involve depository institution accounts held by other Reserve Banks, such as Fedwire funds and securities transfers and check and ACH transactions. The cumulative net amount due to or from the other Reserve Banks is reflected in the "Interdistrict settlement account" in the Statements of Condition.

g. Bank Premises, Equipment, and Software

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from two to fifty years. Major alterations, renovations, and improvements are capitalized at cost as additions to the asset accounts and are depreciated over the remaining useful life of the asset or, if appropriate, over the unique useful life of the alteration, renovation, or improvement. Maintenance, repairs, and minor replacements are charged to operating expense in the year incurred.

Costs incurred for software during the application development stage, whether developed internally or acquired for internal use, are capitalized based on the purchase cost and the cost of direct services and materials associated with designing, coding, installing, and testing the software. Capitalized software costs are amortized on a straight-line basis over the estimated useful lives of the software applications, which range from two to five years. Maintenance costs related to software are charged to expense in the year incurred.

Capitalized assets, including software, buildings, leasehold improvements, furniture, and equipment, are impaired and an adjustment is recorded when events or changes in circumstances indicate that the carrying amount of assets or asset groups is not recoverable and significantly exceeds the assets' fair value.

h. Federal Reserve Notes

Federal Reserve notes are the circulating currency of the United States. These notes, which are identified as issued to a specific Reserve Bank, must be fully collateralized. Assets eligible to be pledged as collateral security include all of the Bank's assets. The collateral value is equal to the book value of the collateral tendered with the exception of securities, for which the collateral value is equal to the par value of the securities tendered. The par value of securities pledged for securities sold under agreements to repurchase is deducted.

The Board of Governors may, at any time, call upon a Reserve Bank for additional security to adequately collateralize the outstanding Federal Reserve notes. To satisfy the obligation to provide sufficient collateral for outstanding Federal Reserve notes, the Reserve Banks have entered into an agreement that provides for certain assets of the Reserve Banks to be jointly pledged as collateral for the Federal Reserve notes issued to all Reserve Banks. In the event that this collateral is insufficient, the Federal Reserve Act provides that Federal Reserve notes become a first and paramount lien on all the assets of the Reserve Banks. Finally, Federal Reserve notes are obligations of the United States government. At December 31, 2009 and 2008, all Federal Reserve notes issued to the Reserve Banks were fully collateralized.

"Federal Reserve notes outstanding, net" in the Statements of Condition represents the Bank's Federal Reserve notes outstanding, reduced by the Bank's currency holdings of $3,618 million and $5,409 million at December 31, 2009 and 2008, respectively.

i. Items in Process of Collection and Deferred Credit Items

"Items in process of collection" in the Statements of Condition primarily represents amounts attributable to checks that have been deposited for collection and that, as of the balance sheet date, have not yet been presented to the paying bank. "Deferred credit items" are the counterpart liability to items in process of collection. The amounts in this account arise from deferring credit for deposited items until the amounts are collected. The balances in both accounts can vary significantly.

j. Capital Paid-in

The Federal Reserve Act requires that each member bank subscribe to the capital stock of the Reserve Bank in an amount equal to 6 percent of the capital and surplus of the member bank. These shares are nonvoting with a par value of $100 and may not be transferred or hypothecated. As a member bank's capital and surplus changes, its holdings of Reserve Bank stock must be adjusted. Currently, only one-half of the subscription is paid-in and the remainder is subject to call. A member bank is liable for Reserve Bank liabilities up to twice the par value of stock subscribed by it.

By law, each Reserve Bank is required to pay each member bank an annual dividend of 6 percent on the paid-in capital stock. This cumulative dividend is paid semiannually. To reflect the Federal Reserve Act requirement that annual dividends be deducted from net earnings, dividends are presented as a distribution of comprehensive income in the Statements of Income and Comprehensive Income.

k. Surplus

The Board of Governors requires the Reserve Banks to maintain a surplus equal to the amount of capital paid-in as of December 31 of each year. Accumulated other comprehensive income is reported as a component of surplus in the Statements of Condition and the Statements of Changes in Capital. The balance of accumulated other comprehensive income is comprised of expenses, gains, and losses related to other postretirement benefit plans that, under GAAP, are included in other comprehensive income, but excluded from net income. Additional information regarding the classifications of accumulated other comprehensive income is provided in Notes 12 and 13.

l. Interest on Federal Reserve Notes

The Board of Governors requires the Reserve Banks to transfer excess earnings to the Treasury as interest on Federal Reserve notes after providing for the costs of operations, payment of dividends, and reservation of an amount necessary to equate surplus with capital paid-in. This amount is reported as "Payments to U.S. Treasury as interest on Federal Reserve notes" in the Statements of Income and Comprehensive Income. The amount due to the Treasury is reported as "Accrued interest on Federal Reserve notes" in the Statements of Condition. If overpaid during the year, the amount is reported as "Prepaid interest on Federal Reserve notes" in the Statements of Condition. Payments are made weekly to the Treasury.

In the event of losses or an increase in capital paid-in at a Reserve Bank, payments to the Treasury are suspended and earnings are retained until the surplus is equal to the capital paid-in.

In the event of a decrease in capital paid-in, the excess surplus, after equating capital paid-in and surplus at December 31, is distributed to the Treasury in the following year.

m. Interest on Depository Institution Deposits

On October 9, 2008, the Reserve Banks began paying interest to depository institutions on qualifying balances held at the Banks. The interest rates paid on required reserve balances and excess balances are determined by the Board of Governors, based on an FOMC-established target range for the effective federal funds rate.

n. Income and Costs Related to Treasury Services

The Bank is required by the Federal Reserve Act to serve as fiscal agent and depositary of the United States Government. By statute, the Department of the Treasury has appropriations to pay for these services. During the years ended December 31, 2009 and 2008, the Bank was reimbursed for all services provided to the Department of the Treasury as its fiscal agent.

o. Compensation Received for Services Provided

The Federal Reserve Bank of Atlanta ("FRBA") has overall responsibility for managing the Reserve Banks' provision of check and ACH services to depository institutions and, as a result, recognizes total System revenue for these services on its Statements of Income and Comprehensive Income. Similarly, the FRBNY manages the Reserve Banks' provision of Fedwire funds and securities services and recognizes total System revenue for these services on its Statements of Income and Comprehensive Income. The FRBA and the FRBNY compensate the applicable Reserve Banks for the costs incurred to provide these services. The Bank reports this compensation as "Compensation received for services provided" in the Statements of Income and Comprehensive Income.

p. Assessments by the Board of Governors

The Board of Governors assesses the Reserve Banks to fund its operations based on each Reserve Bank's capital and surplus balances as of December 31 of the prior year. The Board of Governors also assesses each Reserve Bank for the expenses incurred by the Treasury to produce and retire Federal Reserve notes based on each Reserve Bank's share of the number of notes comprising the System's net liability for Federal Reserve notes on December 31 of the prior year.

q. Taxes

The Reserve Banks are exempt from federal, state, and local taxes, except for taxes on real property. The Bank's real property taxes were $6 million for each of the years ended December 31, 2009 and 2008, and are reported as a component of "Occupancy expense."

r. Restructuring Charges

The Reserve Banks recognize restructuring charges for exit or disposal costs incurred as part of the closure of business activities in a particular location, the relocation of business activities from one location to another, or a fundamental reorganization that affects the nature of operations. Restructuring charges may include costs associated with employee separations, contract terminations, and asset impairments. Expenses are recognized in the period in which the Bank commits to a formalized restructuring plan or executes the specific actions contemplated in the plan and all criteria for financial statement recognition have been met.

Note 14 describes the Bank's restructuring initiatives and provides information about the costs and liabilities associated with employee separations and contract terminations. Costs and liabilities associated with enhanced pension benefits in connection with the restructuring activities for all of the Reserve Banks are recorded on the books of the FRBNY.

The Bank had no significant restructuring activities in 2008 and 2009.

s. Recently Issued Accounting Standards

In February 2008, FASB issued FSP SFAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*, (codified in FASB ASC Topic 860 (ASC 860), *Transfers and Servicing*). ASC 860 requires that an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously with, or in contemplation of, the initial transfer be evaluated together as a linked transaction unless certain criteria are met. These provisions of ASC 860 are effective for the Bank's financial statements for the year beginning

on January 1, 2009 and have not had a material effect on the Bank's financial statements. The requirements of this standard have been reflected in the accompanying footnotes.

In June 2009, FASB issued SFAS 166, *Accounting for Transfers of Financial Assets* – an amendment to FASB Statement No. 140, (codified in ASC 860). The new guidance modifies existing guidance to eliminate the scope exception for qualifying special purpose vehicles ("SPVs") and clarifies that the transferor must consider all arrangements of the transfer of financial assets when determining if the transferor has surrendered control. These provisions of ASC 860 are effective for the Bank's financial statements for the year beginning on January 1, 2010, and earlier adoption is prohibited. The adoption of this standard is not expected to have a material effect on the Bank's financial statements.

In May 2009, FASB issued SFAS No. 165, *Subsequent Events*, (codified in FASB ASC Topic 855 (ASC 855), *Subsequent Events*), which establishes general standards of accounting for and disclosing events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855 sets forth (i) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (iii) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date, including disclosure of the date through which an entity has evaluated subsequent events and whether that represents the date the financial statements were issued or were available to be issued. The Bank adopted ASC 855 for the period ended December 31, 2009 and the required disclosures are reflected in Note 15.

In June 2009, the FASB issued SFAS No. 168, "*The Statement of Financial Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, a replacement of SFAS No. 162, "*The Hierarchy of Generally Accepted Accounting Principles*" (SFAS 168). SFAS 168 establishes the FASB ASC as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP. The ASC does not change current GAAP, but it introduces a new structure that organizes the authoritative standards by topic. SFAS 168 is effective for financial statements issued for periods ending after September 15, 2009. As a result, both the ASC and the legacy standard are referenced in the Bank's financial statements and footnotes.

5. LOANS

The loan amounts outstanding to depository institutions and others at December 31 were as follows (in millions):

	2009	2008
Primary, secondary, and seasonal credit	$ 109	$ 243
TAF	4,052	16,150
Loans to depository institutions	4,161	16,393
AMLF	–	23,765
Other loans	–	23,765

Loans to depository institutions

The Bank offers primary, secondary, and seasonal credit to eligible borrowers. Each program has its own interest rate. Interest is accrued using the applicable interest rate established at least every fourteen days by the board of directors of the Bank, subject to review and determination by the Board of Governors. Primary and secondary credit are extended on a short-term basis, typically overnight, whereas seasonal credit may be extended for a period of up to nine months.

Primary, secondary, and seasonal credit lending is collateralized to the satisfaction of the Bank to reduce credit risk. Assets eligible to collateralize these loans include consumer, business, and real estate loans; Treasury securities; GSE debt securities; foreign sovereign debt; municipal, corporate, and state and local government obligations; ABS; corporate bonds; commercial paper; and bank-issued assets, such as certificates of deposit, bank notes, and deposit notes. Collateral is assigned a lending value that is deemed appropriate by the Bank, which is typically fair value or face value reduced by a margin.

Depository institutions that are eligible to borrow under the Bank's primary credit program are also eligible to participate in the TAF program. Under the TAF program, the Reserve Banks conduct auctions for a fixed amount of funds, with the interest rate determined by the auction pro-

cess, subject to a minimum bid rate. TAF loans are extended on a short-term basis, with terms ranging from 28 to 84 days. All advances under the TAF program must be collateralized to the satisfaction of the Bank. Assets eligible to collateralize TAF loans include the complete list noted above for loans to depository institutions. Similar to the process used for primary, secondary, and seasonal credit, a lending value is assigned to each asset that is accepted as collateral for TAF loans reduced by a margin.

Loans to depository institutions are monitored on a daily basis to ensure that borrowers continue to meet eligibility requirements for these programs. The financial condition of borrowers is monitored by the Bank and, if a borrower no longer qualifies for these programs, the Bank will generally request full repayment of the outstanding loan or, for primary and seasonal credit lending, may convert the loan to a secondary credit loan.

Collateral levels are reviewed daily against outstanding obligations and borrowers that no longer have sufficient collateral to support outstanding loans are required to provide additional collateral or to make partial or full repayment.

Other loans

The Bank administered the AMLF and was authorized to extend loans to eligible borrowers on behalf of the other Reserve Banks. All loans extended under the AMLF were recorded as assets by the Bank and, if the borrowing institution settled to a depository account in another Reserve Bank District, the funds were credited to the institution's depository account by the appropriate Reserve Bank and settled between the Banks through the interdistrict settlement account. The loans extended under the AMLF were nonrecourse, so that the Bank had recourse only to the collateral pledged by the borrowers. The credit risk related to the AMLF was assumed by the Bank. No losses were incurred on loans extended during the years ended December 31, 2009 and 2008. Eligible collateral under the program was limited to U.S. dollar-denominated ABCP that was not rated lower than A-1/P-1/F1 and was required to be purchased from an eligible money market mutual fund. The terms of loans under the AMLF were limited to 120 days if the borrower was a bank or 270 days for non-bank borrowers. The interest rate for advances made under the AMLF was equal to the Bank's primary credit rate offered to depository institutions at the time the advance was made.

The remaining maturity distributions of loans outstanding at December 31 were as follows (in millions):

2009

	Primary, secondary, and seasonal credit	TAF	AMLF
Within 15 days	$ 80	$ 4,052	$ –
16 days to 90 days	29	–	–
Total loans	$ 109	$ 4,052	$ –

2008

	Primary, secondary, and seasonal credit	TAF	AMLF
Within 15 days	$ 132	$ 8,600	$ 9,682
16 days to 90 days	111	7,550	14,083
Total loans	$ 243	$ 16,150	$ 23,765

Allowance for loan loss

At December 31, 2009 and 2008, the Bank did not have any impaired loans and no allowance for loan losses was required.

6. TREASURY SECURITIES; GOVERNMENT-SPONSORED ENTERPRISE DEBT SECURITIES; FEDERAL AGENCY AND GOVERNMENT-SPONSORED ENTERPRISE MORTGAGE-BACKED SECURITIES; SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL; SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE; AND SECURITIES LENDING

The FRBNY, on behalf of the Reserve Banks, holds securities bought outright in the SOMA. The Bank's allocated share of SOMA balances was approximately 1.918 percent and 4.194 percent at December 31, 2009 and 2008, respectively.

The Bank's allocated share of Treasury securities, GSE debt securities, and Federal agency and GSE MBS, excluding accrued interest, held in the SOMA at December 31 was as follows (in millions):

2009

	Treasury securities					
	Bills	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Par	$ 353	$ 10,902	$ 3,642	$ 14,897	$ 3,067	$ 17,426
Unamortized premiums	–	126	469	595	144	232
Unaccredited discounts	–	(19)	(12)	(31)	–	(30)
Total amortized cost	$ 353	$ 11,009	$ 4,099	$ 15,461	$ 3,211	$ 17,628
Fair Value	$ 353	$ 11,185	$ 4,426	$ 15,964	$ 3,212	$ 17,539

2008

	Treasury securities					
	Bills	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Par	$ 773	$ 14,042	$ 5,147	$ 19,962	$ 827	$ –
Unamortized premiums	–	12	281	293	44	–
Unaccredited discounts	–	(35)	(26)	(61)	(1)	–
Total amortized cost	$ 773	$ 14,019	$ 5,402	$ 20,194	$ 870	$ –
Fair Value	$ 773	$ 15,003	$ 7,107	$ 22,883	$ 875	$ –

The total of the Treasury securities, GSE debt securities, and Federal agency and GSE MBS, net, excluding accrued interest held in the SOMA at December 31 was as follows (in millions):

2009

	Treasury securities					
	Bills	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Amortized Cost	$ 18,423	$ 573,877	$ 213,672	$ 805,972	$ 167,362	$ 918,927
Fair Value	18,423	583,040	230,717	$ 832,180	167,444	914,290

2008

	Treasury securities					
	Bills	Notes	Bonds	Total Treasury securities	GSE debt securities	Federal agency and GSE MBS
Amortized Cost	$ 18,423	$ 334,216	$ 128,810	$ 481,449	$ 20,740	$ –
Fair Value	18,423	357,709	169,432	$ 545,564	20,863	–

The fair value amounts in the above tables are presented solely for informational purposes. Although the fair value of security holdings can be substantially greater than or less than the recorded value at any point in time, these unrealized gains or losses have no effect on the ability of the Reserve Banks, as the central bank, to meet their financial obligations and responsibilities. Fair value was determined by reference to quoted market values for identical securities, except for Federal agency and GSE MBS for which fair values were determined using a model-based approach based on observable inputs for similar securities.

The fair value of the fixed-rate Treasury securities, GSE debt securities, and Federal agency and GSE MBS in the SOMA's holdings is subject to market risk, arising from movements in market variables, such as interest rates and securities prices. The fair value of Federal agency and GSE MBS is also affected by the rate of prepayments of mortgage loans underlying the securities.

The following table provides additional information on the amortized cost and fair values of the Federal agency and GSE MBS portfolio at December 31, 2009 (in millions):

Distribution of MBS holdings by coupon rate	Amortized cost	Fair value
Allocated to the Bank:		
4.0%	$ 3,263	$ 3,179
4.5%	8,332	8,280
5.0%	3,749	3,768
5.5%	1,983	2,006
6.0%	244	248
Other[1]	57	58
Total	$ 17,628	$ 17,539
System total:		
4.0%	$ 170,119	$ 165,740
4.5%	434,352	431,646
5.0%	195,418	196,411
5.5%	103,379	104,583
6.0%	12,710	12,901
Other[1]	2,949	3,009
Total	$ 918,927	$ 914,290

[1] - Represents less than one percent of the total portfolio

Financial information related to securities purchased under agreements to resell and securities sold under agreements to repurchase for the years ended December 31, 2009 and 2008, was as follows (in millions):

	Securities purchased under agreements to resell		Securities sold under agreements to repurchase	
	2009	2008	2009	2008
Allocated to the Bank:				
Contract amount outstanding, end of year	$ –	$ 3,355	$ 1,491	$ 3,706
Average daily amount outstanding, during the year	152	3,682	1,779	2,362
Maximum month-end balance outstanding, during the year	–	4,991	3,220	4,134
Securities pledged, end of year	–	–	1,494	3,309
System total:				
Contract amount outstanding, end of year	$ –	$ 80,000	$ 77,732	$ 88,352
Average daily amount outstanding, during the year	3,616	86,227	67,837	55,169
Maximum month-end balance outstanding, during the year	–	119,000	77,732	98,559
Securities pledged, end of year	–	–	77,860	78,896

The Bank has revised its disclosure of securities purchased under agreements to resell and securities sold under agreements to repurchase from a weighted average calculation, disclosed in 2008, to the simple daily average calculation, disclosed above. The previously reported System total 2008 weighted average amount outstanding for securities purchased under agreements to resell was $97,037 million of which $4,070 million was allocated to the Bank. The previously reported System total 2008 weighted average amount outstanding for securities sold under agreements to repurchase was $65,461 million of which $2,746 million was allocated to the Bank.

The contract amounts for securities purchased under agreements to resell and securities sold under agreements to repurchase approximate fair value.

The remaining maturity distribution of Treasury securities, GSE debt securities, Federal agency and GSE MBS bought outright, securities purchased under agreements to resell, and securities sold under agreements to repurchase that were allocated to the Bank at December 31, 2009 was as follows (in millions):

	Treasury securities (Par value)	GSE debt securities (Par value)	Federal agency and GSE MBS (Par value)	Securities purchased under agreements to resell (Contract amount)	Securities sold under agreements to repurchase (Contract amount)
Within 15 days	$ 223	$ 1	$ –	$ –	$ 1,491
16 days to 90 days	553	59	–	–	–
91 days to 1 year	974	413	–	–	–
Over 1 year to 5 years	6,270	1,907	–	–	–
Over 5 years to 10 years	4,100	648	1	–	–
Over 10 years	2,777	39	17,425	–	–
Total allocated to the Bank	$ 14,897	$ 3,067	$ 17,426	$ –	$ 1,491

Federal agency and GSE MBS are reported at stated maturity in the table above. The estimated weighted average life of these securities at December 31, 2009, which differs from the stated maturity primarily because it factors in prepayment assumptions, is approximately 6.4 years.

At December 31, 2009 and 2008, Treasury securities and GSE debt securities with par values of $ 21,610 million and $180,765 million, respectively, were loaned from the SOMA, of which $415 million and $7,582 million, respectively, were allocated to the Bank.

At December 31, 2009, the total of other investments was $5 million, of which the Bank's allocated share was immaterial. Other investments consist of cash and short-term investments related to the Federal agency and GSE MBS portfolio.

At December 31, 2009, the total of other liabilities was $601 million, of which $12 million was allocated to the Bank. These other liabilities, which are related to purchases of Federal agency and GSE MBS, arise from the failure of a seller to deliver securities to the FRBNY on the settlement date. Although the Bank has ownership of and records its investments in the MBS securities as of the contractual settlement date, it is not obligated to make payment until the securities are delivered, and the amount reported as other liabilities represents the Bank's obligation to pay for the securities when delivered.

The FRBNY enters into commitments to buy Federal agency and GSE MBS and records the related MBS on a settlement-date basis. As of December 31, 2009, the total purchase price of the Federal agency and GSE MBS under outstanding commitments was $160,099 million, of which $32,838 million was related to dollar roll transactions. The amount of outstanding commitments allocated to the Bank was $3,071 million, of which $630 million was related to dollar roll transactions. These commitments, which had contractual settlement dates extending through March 2010, are primarily for the purchase of TBA MBS for which the number and identity of the pools that will be delivered to fulfill the commitment are unknown at the time of the trade. These commitments are subject to market and counterparty risks that result from their future settlement. As of December 31, 2009, the fair value of Federal agency and GSE MBS under outstanding commitments was $158,868 million, of which $3,048 million was allocated to the Bank. During the year ended December 31, 2009, the Reserve Banks recorded net gains from dollar roll related sales of $879 million, of which $10 million was allocated to the Bank. These net gains are reported as "Non-Interest Income: Federal agency and government-sponsored enterprise mortgage-backed securities gains, net" in the Statements of Income and Comprehensive Income.

7. INVESTMENTS DENOMINATED IN FOREIGN CURRENCIES

The FRBNY, on behalf of the Reserve Banks, holds foreign currency deposits with foreign central banks and with the Bank for International Settlements and invests in foreign government debt instruments. These investments are guaranteed as to principal and interest by the issuing foreign governments. In addition, the FRBNY enters into transactions to purchase foreign-currency-denominated government-debt securities under agreements to resell for which the accepted collateral is the debt instruments issued by the governments of Belgium, France, Germany, Italy, the Netherlands, and Spain.

The Bank's allocated share of investments denominated in foreign currencies was approximately 4.006 percent and 5.688 percent at December 31, 2009 and 2008, respectively.

The Bank's allocated share of investments denominated in foreign currencies, including accrued interest, valued at amortized cost and foreign currency market exchange rates at December 31, was as follows (in millions):

	2009	2008
Euro:		
Foreign currency deposits	$ 296	$ 317
Securities purchased under agreements to resell	104	232
Government debt instruments	198	262
Japanese yen:		
Foreign currency deposits	136	198
Government debt instruments	278	402
Total allocated to the Bank	$ 1,012	$ 1,411

At December 31, 2009 and 2008, the fair value of investments denominated in foreign currencies, including accrued interest, allocated to the Bank was $1,021 million and $1,423 million, respectively. The fair value of government debt instruments was determined by reference to quoted prices for identical securities. The cost basis of foreign currency deposits and securities purchased under agreements to resell, adjusted for accrued interest, approximates fair value. Similar to the Treasury securities, GSE debt securities, and Federal agency and GSE MBS discussed in Note 6, unrealized gains or losses have no effect on the ability of a Reserve Bank, as the central bank, to meet its financial obligations and responsibilities. The fair value is presented solely for informational purposes.

Total Reserve Bank investments denominated in foreign currencies were $25,272 million and $24,804 million at December 31, 2009 and 2008, respectively. At December 31, 2009 and 2008, the fair value of the total Reserve Bank investments denominated in foreign currencies, including accrued interest, was $25,480 million and $25,021 million, respectively.

The remaining maturity distribution of investments denominated in foreign currencies that were allocated to the Bank at December 31, 2009 was as follows (in millions):

	Euro	Japanese yen	Total
Within 15 days	$ 243	$ 145	$ 388
16 days to 90 days	100	18	118
91 days to 1 year	97	95	192
Over 1 year to 5 years	158	156	314
Total allocated to the Bank	$ 598	$ 414	$ 1,012

At December 31, 2009 and 2008, the authorized warehousing facility was $5 billion, with no balance outstanding.

In connection with its foreign currency activities, the FRBNY may enter into transactions that contain varying degrees of off-balance-sheet market risk that result from their future settlement and counterparty credit risk. The FRBNY controls these risks by obtaining credit approvals, establishing transaction limits, receiving collateral in some cases, and performing daily monitoring procedures.

8. CENTRAL BANK LIQUIDITY SWAPS

U.S. Dollar Liquidity Swaps

The Bank's allocated share of U.S. dollar liquidity swaps was approximately 4.006 percent and 5.688 percent at December 31, 2009 and 2008, respectively.

At December 31, 2009 and 2008, the total Reserve Bank amount of foreign currency held under U.S. dollar liquidity swaps was $10,272 million and $553,728 million, respectively, of which $411 million and $31,498 million, respectively, was allocated to the Bank.

The remaining maturity distribution of U.S. dollar liquidity swaps that were allocated to the Bank at December 31 was as follows (in millions):

	2009			2008		
	Within 15 days	16 days to 90 days	Total	Within 15 days	16 days to 90 days	Total
Australian dollar	$ –	$ –	$ –	$ 569	$ 730	$ 1,299
Danish krone	–	–	–	–	853	853
Euro	260	–	260	8,588	7,985	16,573
Japanese yen	22	–	22	2,724	4,256	6,980
Korean won	–	–	–	–	589	589
Mexican peso	129	–	129	–	–	–
Norwegian krone	–	–	–	125	343	468
Swedish krona	–	–	–	569	853	1,422
Swiss franc	–	–	–	1,093	339	1,432
U.K. pound	–	–	–	7	1,875	1,882
Total	$ 411	$ –	$ 411	$ 13,675	$ 17,823	$ 31,498

Foreign Currency Liquidity Swaps

There were no transactions related to the foreign currency liquidity swaps during the years ended December 31, 2008 and 2009.

9. BANK PREMISES, EQUIPMENT, AND SOFTWARE

Bank premises and equipment at December 31 were as follows (in millions):

	2009	2008
Bank premises and equipment:		
Land	$ 27	$ 27
Buildings	144	142
Building machinery and equipment	30	30
Construction in progress	6	3
Furniture and equipment	60	56
Subtotal	267	258
Accumulated depreciation	(124)	(114)
Bank premises and equipment, net	$ 143	$ 144
Depreciation expense, for the years ended December 31	$ 14	$ 12

The Bank leases space to outside tenants with remaining lease terms ranging from 1 to 11 years. Rental income from such leases was $13 million and $12 million for the years ended December 31, 2009 and 2008, respectively, and is reported as a component of "Other income" in the Statements of Income and Comprehensive Income. Future minimum lease payments that the Bank will receive under noncancelable lease agreements in existence at December 31, 2009 are as follows (in millions):

2010	$ 11
2011	11
2012	11
2013	11
2014	10
Thereafter	20
Total	$ 74

The Bank had capitalized software assets, net of amortization, of $7 million at December 31, 2009 and 2008. Amortization expense was $3 million and $2 million for the years ended December 31, 2009 and 2008, respectively. Capitalized software assets are reported as a component of "Other assets" in the Statements of Condition and the related amortization is reported as a component of "Other expenses" in the Statements of Income and Comprehensive Income.

10. COMMITMENTS AND CONTINGENCIES

In the normal course of its operations the Bank enters into contractual commitments, normally with fixed expiration dates or termination provisions, at specific rates and for specific purposes.

At December 31, 2009, the Bank was obligated under noncancelable leases for premises with remaining terms of approximately 3 years. These leases provide for increased rental payments based upon increases in real estate taxes and operating costs.

Rental expense under operating leases for certain operating facilities, warehouses, and data processing and office equipment (including taxes, insurance, and maintenance when included in rent), was $1 million for the years ended December 31, 2009 and 2008. Certain of the Bank's leases have options to renew.

Future minimum rental payments under noncancelable operating leases, with remaining terms of one year or more, at December 31, 2009 are as follows (in thousands):

	Operating leases
2010	$ 559
2011	559
2012	428
2013	–
2014	–
Thereafter	–
Future minimum rental payments	$ 1,546

At December 31, 2009, there were no material unrecorded unconditional purchase commitments or obligations in excess of one year.

Under the Insurance Agreement of the Federal Reserve Banks, each of the Reserve Banks has agreed to bear, on a per incident basis, a pro rata share of losses in excess of one percent of the capital paid-in of the claiming Reserve Bank, up to 50 percent of the total capital paid-in of all Reserve Banks. Losses are borne in the ratio of a Reserve Bank's capital paid-in to the total capital paid-in of all Reserve Banks at the beginning of the calendar year in which the loss is shared. No claims were outstanding under the agreement at December 31, 2009 or 2008.

The Bank is involved in certain legal actions and claims arising in the ordinary course of business. Although it is difficult to predict the ultimate outcome of these actions, in management's opinion, based on discussions with counsel, the aforementioned litigation and claims will be resolved without material adverse effect on the financial position or results of operations of the Bank.

11. RETIREMENT AND THRIFT PLANS

Retirement Plans

The Bank currently offers three defined benefit retirement plans to its employees, based on length of service and level of compensation. Substantially all of the employees of the Reserve Banks, Board of Governors, and Office of Employee Benefits of the Federal Reserve System ("OEB") participate in the Retirement Plan for Employees of the Federal Reserve System ("System Plan"). In addition, employees at certain compensation levels participate in the Benefit Equalization Retirement Plan ("BEP") and certain Reserve Bank officers participate in the Supplemental Retirement Plan for Select Officers of the Federal Reserve Bank ("SERP").

The System Plan provides retirement benefits to employees of the Federal Reserve Banks, the Board of Governors, and OEB. The FRBNY, on behalf of the System, recognizes the net asset or net liability and costs associated with the System Plan in its financial statements. Costs associated with the System Plan are not reimbursed by other participating employers.

The Bank's projected benefit obligation, funded status, and net pension expenses for the BEP and the SERP at December 31, 2009 and 2008, and for the years then ended, were not material.

Thrift Plan

Employees of the Bank participate in the defined contribution Thrift Plan for Employees of the Federal Reserve System ("Thrift Plan"). The Bank matches employee contributions based on a specified formula. For the year ended December 31, 2008 and for the first three months of the year ended December 31, 2009, the Bank matched 80 percent of the first 6 percent of employee contributions for employees with less than five years of service and 100 percent of the first 6 percent of employee contributions for employees with five or more years of service. Effective April 1, 2009, the Bank matches 100 percent of the first 6 percent of employee contributions from the date of hire and provides an automatic employer contribution of one percent of eligible pay. The Bank's Thrift Plan contributions totaled $4 million for each of the years ended December 31, 2009 and 2008, and are reported as a component of "Salaries and other benefits" in the Statements of Income and Comprehensive Income.

12. POSTRETIREMENT BENEFITS OTHER THAN RETIREMENT PLANS AND POSTEMPLOYMENT BENEFITS

Postretirement Benefits Other Than Retirement Plans

In addition to the Bank's retirement plans, employees who have met certain age and length-of-service requirements are eligible for both medical benefits and life insurance coverage during retirement.

The Bank funds benefits payable under the medical and life insurance plans as due and, accordingly, has no plan assets.

Following is a reconciliation of the beginning and ending balances of the benefit obligation (in millions):

	2009	2008
Accumulated postretirement benefit obligation at January 1	$ 63.4	$ 56.4
Service cost benefits earned during the period	1.7	1.5
Interest cost on accumulated benefit obligation	3.8	3.6
Net actuarial loss	10.2	6.0
Curtailment gain	–	(0.2)
Contributions by plan participants	1.7	1.5
Benefits paid	(5.6)	(5.6)
Medicare Part D subsidies	0.2	0.2
Accumulated postretirement benefit obligation at December 31	$ 75.4	$ 63.4

At December 31, 2009 and 2008, the weighted-average discount rate assumptions used in developing the postretirement benefit obligation were 5.75 percent and 6.00 percent, respectively.

Discount rates reflect yields available on high-quality corporate bonds that would generate the cash flows necessary to pay the plan's benefits when due.

Following is a reconciliation of the beginning and ending balance of the plan assets, the unfunded postretirement benefit obligation, and the accrued postretirement benefit costs (in millions):

	2009	2008
Fair value of plan assets at January 1	$ –	$ –
Contributions by the employer	3.7	3.9
Contributions by plan participants	1.7	1.5
Benefits paid	(5.6)	(5.6)
Medicare Part D subsidies	0.2	0.2
Fair value of plan assets at December 31	$ –	$ –
Unfunded obligation and accrued postretirement benefit cost	$ 75.4	$ 63.4
Amounts included in accumulated other comprehensive loss are shown below:		
Prior service cost	$ 0.4	$ 1.1
Net actuarial loss	(20.7)	(11.3)
Deferred curtailment gain	–	0.1
Total accumulated other comprehensive loss	$ (20.3)	$ (10.1)

Accrued postretirement benefit costs are reported as a component of "Accrued benefit costs" in the Statements of Condition.

For measurement purposes, the assumed health care cost trend rates at December 31 are as follows:

	2009	2008
Health care cost trend rate assumed for next year	7.50%	7.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2015	2014

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects for the year ended December 31, 2009 (in millions):

	One percentage point increase	One percentage point decrease
Effect on aggregate of service and interest cost components of net periodic postretirement benefit costs	$ 0.8	$ (0.7)
Effect on accumulated postretirement benefit obligation	8.7	(7.3)

The following is a summary of the components of net periodic postretirement benefit expense for the years ended December 31 (in millions):

	2009	2008
Service cost for benefits earned during the period	$ 1.7	$ 1.5
Interest cost on accumulated benefit obligation	3.8	3.6
Amortization of prior service cost	(0.7)	(0.8)
Amortization of net actuarial loss	0.8	0.1
Total periodic expense	5.6	4.4
Curtailment gain	(0.1)	(0.2)
Net periodic postretirement benefit expense	$ 5.5	$ 4.2

Estimated amounts that will be amortized from accumulated other comprehensive loss into net periodic postretirement benefit expense in 2010 are shown below:	
Prior service cost	$ (0.2)
Net actuarial loss	2.0
Total	$ 1.8

Net postretirement benefit costs are actuarially determined using a January 1 measurement date. At January 1, 2009 and 2008, the weighted-average discount rate assumptions used to determine net periodic postretirement benefit costs were 6.00 percent and 6.25 percent, respectively.

Net periodic postretirement benefit expense is reported as a component of "Salaries and other benefits" in the Statements of Income and Comprehensive Income.

A net curtailment gain associated with restructuring programs that are described in Note 14 was recognized in net income in the year ended December 31, 2009, related to employees who terminated employment during 2009.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 established a prescription drug benefit under Medicare ("Medicare Part D") and a federal subsidy to sponsors of retiree health care benefit plans that provide benefits that are at least actuarially equivalent to Medicare Part D. The benefits provided under the Bank's plan to certain participants are at least actuarially equivalent to the Medicare Part D prescription drug benefit. The estimated effects of the subsidy are reflected in actuarial loss in the accumulated postretirement benefit obligation and net periodic postretirement benefit expense.

Federal Medicare Part D subsidy receipts were $0.3 million and $0.2 million in the years ended December 31, 2009 and 2008, respectively. Expected receipts in 2010, related to benefits paid in the years ended December 31, 2009 and 2008, are $41 thousand.
Following is a summary of expected postretirement benefit payments (in millions):

	Without subsidy	With subsidy
2010	$ 4.4	$ 4.1
2011	4.8	4.5
2012	5.0	4.7
2013	5.3	4.9
2014	5.5	5.1
2015 - 2019	29.0	26.5
Total	$ 54.0	$ 49.8

Postemployment Benefits

The Bank offers benefits to former or inactive employees. Postemployment benefit costs are actuarially determined using a December 31 measurement date and include the cost of medical and dental insurance, survivor income, and disability benefits. The accrued postemployment benefit costs recognized by the Bank at December 31, 2009 and 2008 were $6 million and $5 million, respectively. This cost is included as a component of "Accrued benefit costs" in the Statements of Condition. Net periodic postemployment benefit expense (credit) included in 2009 and 2008 operating expenses were $2 million and $(92) thousand, respectively, and are recorded as a component of "Salaries and other benefits" in the Statements of Income and Comprehensive Income.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME AND OTHER COMPREHENSIVE INCOME

Following is a reconciliation of beginning and ending balances of accumulated other comprehensive loss (in millions):

	Amount related to postretirement benefits other than retirement plans
Balance at January 1, 2008	$ (3)
Change in funded status of benefit plans:	
Net actuarial loss arising during the year	$ (6)
Amortization of prior service cost	$ (1)
Change in funded status of benefit plans - other comprehensive loss	$ (7)
Balance at December 31, 2008	$ (10)
Change in funded status of benefit plans:	
Net actuarial loss arising during the year	$ (10)
Amortization of prior service cost	$ (1)
Amortization of net actuarial loss	$ 1
Change in funded status of benefit plans - other comprehensive loss	$ (10)
Balance at December 31, 2009	$ (20)

Additional detail regarding the classification of accumulated other comprehensive loss is included in Note 12.

14. BUSINESS RESTRUCTURING CHARGES

2007 and Prior Restructuring Plans

The Bank incurred various restructuring charges prior to 2008 related to a restructuring initiative to align the check processing infrastructure and operations with declining check processing volumes.

Following is a summary of financial information related to the restructuring plans (in millions):

	2007 and prior restructuring plans
Information related to restructuring plans as of December 31, 2009:	
Total expected costs related to restructuring activity	$ 3.6
Estimated future costs related to restructuring activity	1.3
Expected completion date	2010
Reconciliation of liability balances:	
Balance at January 1, 2008	$ 2.4
Employee separation costs	0.3
Adjustments	(0.5)
Payments	(1.6)
Balance at December 31, 2008	$ 0.6
Payments	(0.1)
Balance at December 31, 2009	$ 0.5

Employee separation costs are primarily severance costs for identified staff reductions associated with the announced restructuring plans. Separation costs that are provided under terms of ongoing benefit arrangements are recorded based on the accumulated benefit earned by the employee. Separation costs that are provided under the terms of one-time benefit arrangements are generally measured based on the expected benefit as of the termination date and recorded ratably over the period to termination. Restructuring costs related to employee separations are reported as a component of "Salaries and other benefits" in the Statements of Income and Comprehensive Income.

Adjustments to the accrued liability are primarily due to changes in the estimated restructuring costs and are shown as a component of the appropriate expense category in the Statements of Income and Comprehensive Income.

15. SUBSEQUENT EVENTS

There were no subsequent events that require adjustments to or disclosures in the financial statements as of December 31, 2009. Subsequent events were evaluated through April 21, 2010, which is the date that the Bank issued the financial statements.

External Auditor Independence

In 2009, the Board of Governors engaged Deloitte & Touche LLP (D&T) for the audits of the individual and combined financial statements of the Reserve Banks and the consolidated financial statements of the limited liability companies (LLCs) that are associated with Federal Reserve actions to address the financial crisis and are consolidated in the financial statements of the Federal Reserve Bank of New York. Fees for D&T's services are estimated to be $9.6 million, of which approximately $2.0 million were for the audits of the LLCs[1]. To ensure auditor independence, the Board of Governors requires that D&T be independent in all matters relating to the audit. Specifically, D&T may not perform services for the Reserve Banks or others that would place it in a position of auditing its own work, making management decisions on behalf of Reserve Banks, or in any other way impairing its audit independence. In 2009, the Bank did not engage D&T for any non-audit services.

[1]Each LLC will reimburse the Board of Governors for the fees related to the audit of its financial statements from the entity's available net assets.

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