

# 2007 Bank Highlights

## Our role in New England and the Nation

This was an eventful year — along many dimensions. Within the Bank, we saw the retirement of Cathy E. Minehan as President and CEO, after 13 years of distinguished service in this position. Eric S. Rosengren was selected as the new President;



previously, Eric was the Bank's executive vice president in charge of Supervision, Regulation, and Credit. Meanwhile, rapidly deteriorating conditions in housing and credit markets challenged Federal Reserve System policy makers and all those who advise and assist them. The fallout from rising delinquencies in subprime mortgages became a major concern. Many borrowers could not meet mortgage payments, home prices declined, and foreclosures rose. The effect on financial markets was far-reaching, resulting in heightened uncertainty and volatility.

In response to the developments in housing and financial markets, a number of Bank departments — including Research; Public and Community Affairs; Corporate Affairs; and Supervision, Regulation and Credit — joined forces to understand better the subprime mortgage and credit crisis; to share our findings with policy makers, advocacy groups and the public; and to work toward possible solutions. These efforts, which are ongoing, are highlighted on pages 19 and 20 of this report. Particularly noteworthy was the research paper, “Subprime Outcomes: Risky Mortgages, Homeownership Experiences and Foreclosures,” which dispelled misconceptions about the importance of interest rate “re-sets” in causing foreclosures and highlighted the important role of house price changes. Another important initiative was the Bank's support for the formation of the Mortgage Relief Fund, a collaboration of major New England banks to reach out to subprime borrowers who might be able to refinance into more affordable loans. A number of community banks will join the effort in 2008.

Other areas where the Bank made significant contributions include the following:

- Our research economists explored the role that behavioral economics can play in economic policy making and central banking. A conference we hosted on this topic enhanced our understanding and produced new avenues for research. Economists also added to our understanding of inflation dynamics through a number of new analyses. The Emerging Payments Research Group delved into contactless payments technology through research and a forum devoted to understanding the barriers, opportunities, and security risks presented by this relatively new payments method.
- The Bank's New England Public Policy Center provided timely analysis of key economic issues for the region's





public policy makers, with a particular focus on state aid to local governments, health insurance reform in the six New England states, and business taxation in Massachusetts. The center launched an online interactive resource that provides statistics on the New England economy.

- A highlight of the year was the successful implementation in November of the Internet Payment Platform. IPP is an application developed by the Federal Reserve Bank of Boston on behalf of the U.S. Treasury to enable federal agencies to handle in a single online system all of their purchase orders, invoices, workflow data, and payment information. We also managed substantial growth in our Stored Value Card program in 2007. This program now serves military personnel at more than 50 military bases in the United States and other countries.
- The Bank was selected to undertake a multi-year project to design, build, and operate a new cash management system for the U.S. Treasury to manage the inflow and outflow of government deposits. The new application will serve as the Treasury's means of concentrating cash from depository institutions and will improve the Treasury's ability to manage the public's money efficiently.
- Our check processing, cash, and wholesale payments staff achieved exceptional performance in 2007. Highlights included year-over-year gains of 17 percent in check processing productivity and 22 percent in cash paying and receiving productivity.
- Our bank supervision staff successfully conducted 18 extensive quantitative reviews at the largest, most sophisticated banks in the country as those banks prepared to implement systems that will help them qualify for the new Basel II capital requirements. Two members of our staff were chosen for national leadership roles as Basel II risk coordinators for the Federal Reserve System.

## Subprime Mortgage and Credit Crisis: Research and Outreach

In 2007, Bank staff from several different departments collaborated to better understand and address the subprime mortgage crisis.

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March	<b>"Understanding Foreclosures in Massachusetts"</b> We issued a discussion paper analyzing rising foreclosures in Massachusetts. The paper shows an association between communities with higher rates of foreclosure and concentrations of higher-cost lending.
March	<b>"Tackling Foreclosure" and "Foreclosure in Rhode Island"</b> Two articles in the Bank's magazine, <i>Communities &amp; Banking</i> , describe programs that help families keep their homes and avoid foreclosure.
April	<b>Massachusetts legislative testimony</b> The Bank's community affairs officer testified on rising foreclosures at a Massachusetts state house hearing.
April	<b>Foreclosures in New England</b> A section of our public web site was devoted to information on foreclosures and the foreclosure process. The site provides information for both researchers and the general public. It includes quarterly updates of state foreclosure trends, research papers, and links to helpful resources for borrowers.
April	<b>"Infórmese antes de ir...a solicitar una hipoteca"</b> We published a Spanish-language version of our guide to alternative mortgage products and glossary of terms, "True or False? Know Before You Go To Get A Mortgage."
May and October	<b><i>New England Community Developments</i></b> Articles in the spring and fall issues of our newsletter, <i>New England Community Developments</i> , are devoted to information on foreclosure intervention and prevention efforts in Massachusetts and across New England.
October 10	<b>"Recent Developments in Real Estate, Financial Markets, and the Economy"</b> In his first major speech as the Bank's new president, Eric Rosengren addressed a meeting of the Portland, Maine, Chamber of Commerce, talking about the subprime mortgage problem and foreclosures in New England. Subsequent speeches also addressed the problem and explored possible solutions.
October 15	<b>"Mortgage Lending Discrimination"</b> A senior Bank officer testified on foreclosures and the subprime mortgage situation at a hearing of the Committee on Financial Services, U.S. House of Representatives, held at Roxbury Community College, Boston.

November	<p><b>"You May Be Paying Too Much for Your Mortgage"</b></p> <p>We produced and began distributing a brochure explaining how mortgages are priced and encouraging consumers to shop for the best possible pricing. A Spanish-language version was produced in December.</p>
November 13	<p><b>"Foreclosure Crisis: Where Are We Now, How Did We Get Here, Where Are We Going?"</b></p> <p>The Bank's third annual New England Consumer Advisory Group conference gathered together consumer regulators, community advocates, economists, lenders, bankers, and loan intermediaries to discuss foreclosure problems and share information on foreclosure prevention programs.</p>
November 14	<p><b>Fair Housing Seminar Series</b></p> <p>A community affairs staff member provided an update on New England foreclosure trends to the Greater Boston Fair Housing Seminar Series.</p>
December	<p><b>TheInformedHomeBuyer.org</b></p> <p>We launched a new consumer-oriented web site to assist mortgage borrowers in evaluating financing options. The site contains links to counseling services and other resources. A Spanish-language version of this web site was launched in April 2008.</p>
December	<p><b>"Subprime Outcomes: Risky Mortgages, Homeownership Experiences, and Foreclosures"</b></p> <p>The Research Department released a working paper on subprime mortgages that has received widespread attention. The paper points out that initial "teaser" rates on subprime mortgages were often not particularly low and that, historically, most borrowers refinanced before their rates re-set to higher levels. The paper highlights the importance of house price changes in determining foreclosures. Foreclosures are much more likely to occur if prices are declining.</p>
December	<p><b>Mortgage Relief Fund</b></p> <p>We worked with five major New England banks to develop and publicize a program to reach out to borrowers with subprime loans to encourage them to see if lower-cost financing might be available. We also began discussions with community banks about their involvement in such an effort.</p>
ongoing	<p><b>Public presentations</b></p> <p>Staff members made presentations on the foreclosure problem and assistance at forums throughout New England, including meetings sponsored by the Boston Foundation, U.S. Department of Housing and Urban Development (HUD), Massachusetts chapter of the American Society for Public Administration, Harvard Kennedy School of Government, state of Rhode Island, and Massachusetts state legislators.</p>
ongoing	<p><b>Technical and analytical assistance</b></p> <p>We provided technical and analytical support to the City of Boston and other agencies in their work on foreclosure and delinquency prevention programs. For the City of Boston, we helped identify the impact of foreclosure on rental tenants.</p>