

2008 bank highlights

Deterioration in housing and financial markets carried over from 2007 into 2008. The Bank was challenged on many fronts as the Federal Reserve System, working cooperatively with other government entities, was called upon to address multiple dimensions of the financial turmoil. With the involvement of virtually all departments, the Bank contributed to policy-making; aided in the development of new market-supporting interventions; conducted research to provide enhanced understanding of the mortgage crisis; and organized a large workshop to bring together distressed borrowers and mortgage servicing firms for discussions aimed at averting foreclosures. At the same time, the Bank made additional strides in its work on payments systems for the U.S. Treasury and in its efforts to advance electronic payment systems generally. The Bank also began an initiative to address the adequacy of New England's skilled labor force in coming years.

Highlights of 2008 include the following:

- The foreclosure-prevention workshop that the Bank organized and co-sponsored at Gillette Stadium in Foxborough, Massachusetts, in August attracted approximately 2000 borrowers, one-third of whom received some modification in their mortgage that may enable them to stay in their home and avoid foreclosure.
- In September, over a weekend, the Bank set up a new lending facility to fund purchases by banks of high quality asset-backed commercial paper from money market mutual funds. We learned on Friday that this facility would be needed, and staff spent the next several days establishing lending procedures, preparing legal opinions, installing computers and telephone lines, coordinating staffing, and making financial institutions aware of the new borrowing procedures. The facility was up and running on Monday morning and, after eight days of operation, had \$152 billion in loans outstanding, providing needed liquidity to money market mutual funds and taking stress off the commercial paper market. The facility is referred to by its acronym: AMLF (asset-backed commercial paper money market mutual fund liquidity facility).
- A group of the Bank's economists conducted research designed to better understand the mortgage crisis and ways to address it effectively. Using a variety of datasets, they described the characteristics of the subprime mortgage market and showed how negative home equity is related to foreclosures. In particular, their research showed that negative home equity is a necessary, but not sufficient, factor in precipitating foreclosure. A second necessary factor is a mortgage payment that has become unaffordable, perhaps because of a job loss. Homeowners who cannot afford their mortgage payments and have negative

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equity are likely candidates for foreclosure, suggesting that foreclosure-reduction policies might best be targeted to this group of homeowners.

- In its work for the U.S. Treasury, the Bank expanded use of the Internet Payment Platform to include two new federal agencies and several thousand additional suppliers. The IPP is an application developed by the Bank to enable federal agencies to handle all purchase orders, invoices, workflow data, and payment information efficiently in a single web-based system. In a second program serving the U.S. Treasury, the Stored Value Card program, the Bank also managed expanded use and achieved improved operating efficiency. Early development work continued on the Bank's third program for the U.S. Treasury, a cash management system that will enable the Treasury to concentrate cash flows from depository institutions and thereby manage the public's money more efficiently.
- In September, the Bank completed the migration of all First District paper check processing from its check processing facility in Windsor Locks, Connecticut, to the Federal Reserve Bank of Philadelphia. The Bank worked closely with New England depository institutions to encourage the adoption of electronic collection prior to consolidation.
- Our New England Public Policy Center continued its exploration of issues surrounding the adequacy of New England's skilled labor force in coming years. Their work indicated that young college graduates leave the region primarily for employment reasons, leading to discussion of how to mitigate the departure of graduates. The essay in this annual report describes the Policy Center's findings and possible avenues to increase New England's supply of young college graduates. In a further look at labor force issues, the Policy Center sponsored a yearend conference assessing the role of baby boomers in meeting the region's future skilled labor force needs.
- We upgraded our building, 600 Atlantic Avenue, significantly in 2008, making numerous energy-saving and environmentally friendly changes as well as improvements to staff space, public areas, and tenant space. We were pleased to achieve full tenant occupancy in 2008, with 31 percent of the building now occupied by tenants. We began the process of applying for LEED (Leadership in Energy and Environmental Design) certification and hope our building will become one of the few in Boston to earn this designation, which is the nationally accepted benchmark for the design, construction, and operation of high performance green buildings.