

MILEPOSTS ON THE ROAD TO EXCELLENCE



Our Bank traditionally has made significant contributions to the Federal Reserve System's stewardship of the U.S. economy and financial system. We have consistently challenged ourselves to meet high standards in the pursuit of our goals. In the past year, we took several important steps toward achieving the goals of our new strategic plan by improving services, operations, and communications. We are encouraged by the progress we've made so far. But like long-distance runners in the middle stages of a race, we recognize that we have more mileposts to pass before we have finished.



Influence Monetary and Banking Policy

MILEPOSTS: The Bank continued to contribute to the analysis, formulation, and implementation of monetary, banking, and payments system policies. As usual, staff economists prepared President Alfred Broaddus for participation in Federal Open Market Committee meetings. The staff also prepared First Vice President Walter Varvel to fulfill his duties as a member of the System's Financial Services Policy Committee.

Staff economists pursued research on the complex relationships between monetary policy, economic activity, and inflation. They continued to play a leading role in the development of the "new

neoclassical synthesis." New synthesis models blend features from 'real business cycle' and 'Keynesian' economics to improve our understanding of the interaction of monetary policy with productivity growth and inflation. President Broaddus presented an analysis of current monetary policy using the new neoclassical synthesis in a conference sponsored by the Austrian National Bank in Vienna. Additionally, the Bank's senior policy advisor, Marvin Goodfriend, used this framework to make the case for price stability in a paper presented at a European Central Bank conference in Frankfurt, Germany.

Several presentations attracted the attention of economists, practitioners, and the media. At the Chicago Fed's annual conference on banking structure, President Broaddus discussed the implications of the Fed's lending to depository institutions for the current effort to improve the supervision of banks and enhance market discipline. Mr. Goodfriend presented a paper on financial stability, deflation, and monetary policy at a conference sponsored by the Bank of Japan in Tokyo. Staff economists contributed basic research on the economics of payment arrangements. The Bank hosted a conference in Colonial Williamsburg that convened 48 academic, Federal Reserve, and foreign central bank economists to debate issues regarding payments system incentives, instruments, and settlement issues.

Contributions to economic literacy were fundamental to last year's outreach and educational programs. Bank staff made numerous appearances to discuss the role of the Federal Reserve and to build relationships with our Fifth District community. The Bank also sponsored a Districtwide Fed Challenge competition for high school students to foster an understanding of monetary policy and its role in the nation's economy. The winning team participated in a national competition held at the Board of Governors in Washington, D.C.

To disseminate research and economic information more effectively, staff improved the content, navigation, and format of the Bank's public Web site. *Region Focus*, the Bank's quarterly business magazine, published four issues and garnered eight awards for journalistic and design excellence. *Marketwise*, the Community Affairs magazine, published three issues and won two awards for journalism and design excellence.



Manage Risk for Market Stability

MILEPOSTS: The Federal Reserve's responsibility for supervising and regulating state-chartered member banks and bank holding companies requires intensive monitoring and analysis, especially in view of the Fifth District's concentration of large complex banking organizations. The District is home to 237 bank holding companies with \$1.1 trillion in assets (18 are financial holding companies),

and 121 state member banks with \$72.9 billion in assets. In 2000, the Bank implemented a new Federal Reserve Systemwide program for supervising large financial organizations. President Broaddus and other senior officers now routinely meet with the boards of large financial institutions. There also is regular interaction between Bank supervisory staff, the staffs of financial institutions, and other regulators aimed at improving communications and risk assessment.

As part of its commitment to excellence, the Bank strengthened training opportunities for both its own staff and members of the staffs of supervised financial institutions to ensure efficient and effective practices, policies, and partnerships. The Bank also trained financial institutions in developing plans for accessing loans through the discount window to satisfy temporary needs for cash.

Rounding out risk management efforts was the Bank's smooth navigation of the Y2K rollover and a multi-year building security project.



Provide Exceptional Customer Service

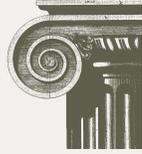
MILEPOSTS: The Bank took several steps to improve financial services for depository institutions and the U.S. Treasury. Cash services, check services, customer support, and securities transfer services completed the second round of quality surveys in 2000. The surveys showed significant

improvements over the already strong ratings of two years earlier, with three of the areas recording improvements of over 25 percentage points. The Bank was commended for its reliability, accuracy, response time, understanding of customer needs, courtesy, accessibility, and clarity of reports and communications.

As part of a multi-year Systemwide effort to modernize check services, the Bank took several first steps in converting to standard, centralized hardware and software systems for processing checks, archiving images, sharing data, and providing Web-based electronic access for check customers.

The Bank and the U.S. Treasury worked closely on new Web-based programs to improve the efficiency of U.S. government payment and collection systems. Staff collaborated on projects to develop and enhance systems for sharing accounting information among federal agencies, consolidating federal grant payments, and improving check reclamation and accounting. Working with the Bureau of Engraving and Printing, the Bank processed more than 88 million potentially defective \$20 bills and salvaged about 71 million bills, saving the U.S. Treasury about 1.8 million in printing costs. By the time the project is completed in mid-2001, about 121 million bills will have been processed and about \$2.6 million saved.

The Bank also consolidated some of its human-resources-related automated services with Reserve Banks in Kansas City, St. Louis, and San Francisco as part of overall efficiency efforts.



Improve Performance and Communication

MILEPOSTS: The Bank made significant strides toward developing its future leaders, as well as improving employee performance and communication. The Bank held a special three-day conference to discuss leadership issues and methods for developing talent. For six months following the conference, work groups throughout the Bank collaborated to develop action plans for improving communications, training, innovation, and productivity. Management expects to take action on the plans in 2001.

The Bank also launched a new performance management training program. More than 100 managers and supervisors in Richmond and Charleston completed five daylong training sessions for setting performance expectations, coaching employees, and monitoring and tracking performance.

The Bank took several measures to improve communications with employees and foster commitment and community spirit. One of the most visible was the redesign of the former *5E Observer* employee magazine into a colorful "magapaper." The quarterly publication provides useful and stimulating information on Bank business initiatives and tracks progress on meeting strategic plan goals. Feedback on the new format has been highly favorable. The publication also won its first award for journalistic excellence.