

MESSAGE FROM MANAGEMENT



Sarah G. Green, First Vice President

Anyone who has paid attention to the news over the last year has seen plenty about the Federal Reserve—including criticism. Public discussion has associated the Fed with Wall Street because of the actions we have taken amid unprecedented turmoil to stabilize complex financial markets and prevent widespread repercussions. Many of these actions were undertaken at moments of great peril for the financial system and, while they may not have been how we would have chosen ahead of time to react, were taken in the interest of preventing a further deepening of the financial crisis and the recession.

These events have underscored the importance of our role as a supervisor of large financial institutions, but our focus is not to help Wall Street. Rather, it is to promote economic growth with low inflation, a sound financial system, and an efficient and safe payments system for the people who live on Main Street. Our interest lies in how the decisions of families and businesses affect the overall economy and also how the economy affects them.

As we approach the 100th anniversary of the Fed's founding, it seems fitting to revisit the Federal Reserve's overriding mission and focus on Main Street. We will be opening an interactive economic exhibit at the Richmond Fed this summer that explores this theme. We hope you will visit and participate in this exhibit.

Looking back to 1913 when Congress established the Federal Reserve, the United States did not have a central bank, despite several unsuccessful efforts over the previous century-and-a-half. Banking problems, most notably a bank panic in 1907, prompted the search for a solution and a number of proposals were considered with great deliberation. Then, as now, tension focused on whether it was better to have a centralized bank, driven by Washington and the interest of large New York banks, or a regional structure that represented interests from around the country.

The founders ultimately reached a compromise that gave the Federal Reserve its unique structure with input from around the country and oversight from Washington. That structure remains in place today, with 12 Reserve Banks representing the regional perspectives and interests of various parts of the United States, and the Federal Reserve Board of Governors providing central oversight. That long-established structure prevents concentration of

power and has been the foundation for the way the Fed carries out its responsibilities in monetary policy, banking supervision, lending, and payments. It also helps the Fed maintain strong connections with people in all regions of the country.

The seven governors who constitute the Board of Governors in Washington and the 12 Reserve Bank presidents gather at Federal Open Market Committee meetings every six weeks to make monetary policy decisions. Each of the presidents brings views informed by their own local research functions as well as by the information gleaned from interactions with the people and businesses located in each of their district's communities. Real-time local information is particularly important at times like these when we are trying to help the economy recover from a deep recession and at the same time maintain low inflation.

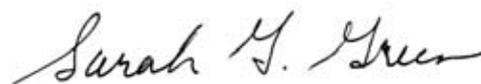
Across the country, the Fed supervises more than 5,000 bank holding companies and, although it sometimes receives less attention, we also have supervisory responsibility for more than 800 community banks. In addition, we provide access to collateralized overnight borrowing to all depository financial institutions. Through the connections that we develop with all of these banks, we are able to gain a strong sense of what is happening in the economies of both the Fifth District and the country as a whole. Our interest is in making sure the banks remain strong members of their communities for the benefit of Main Street.

The Fed's role in the payments system underpins the activity that occurs daily in the economy. Our focus is on the accessibility, efficiency, and integrity of the U.S. payments system. We provide cash, check, automated clearinghouse, Fedwire, and securities transfer payments services to financial institutions, and we serve as the fiscal agent for the U.S. Treasury. The \$4 trillion that we transfer each day enables individuals to manage their daily financial needs—for example, obtain cash, receive their paychecks and Social Security, make rent and bill payments, and purchase the goods and services offered by businesses on Main Street.

The Fed's most direct contact with the public comes through our outreach to local communities to support economic education and community development. Each

Reserve Bank reaches out to speak with and learn from a wide variety of constituents. Some of the activities in the Fifth District during 2009 are described in "The Bank in the Community" section of this report.

Our boards of directors, advisory councils, and various outreach activities have highlighted the suffering and dislocations that people have experienced during the financial crisis and prolonged, deep recession. As an organization, we have stepped back to examine how we can do a better job in the future in each of our areas of responsibility. The essay in this *Annual Report* is just an example of the research we are undertaking to understand what prompted the financial crisis. We have increased our transparency, changed and strengthened our approach to supervision of financial institutions, and promulgated new consumer regulations. We will continue to seek opportunities for change that will strengthen the economy, the financial system, the payments system, and our communities. However, one thing will not change—our resolve to do what is best for Main Street over the longer term.



Sarah G. Green
First Vice President