

FEDERAL RESERVE BANK
OF RICHMOND

Both the national and Fifth District economies continued to grow robustly in 1999, with sizable gains in employment and production.

With rising current income, and higher expected future income driven by increased productivity growth, domestic U.S. demand for goods and services was exceptionally strong throughout most of the year — indeed, so strong that many economists concluded that greater monetary restraint was needed to sustain the expansion over time. In response, the Fed raised the federal funds rate one-quarter percentage point on three occasions in the second half of the year. Two of these increases were accompanied by quarter point increases in the discount rate. The impacts of these policy actions were still being assessed in early 2000.

Far easier to ascertain was the success of the Bank's preparation for a smooth transition to the year 2000. The Bank completed the century date rollover with no service disruptions to internal operations or external customers. Preparing for the successful transition required the dedication and commitment of staff in every area of the Bank. The financial services areas made extensive operating and contingency preparations and worked closely with customers to ensure readiness. Customer Support staff played a key role in testing, monitoring, and communicating with Fifth District financial institutions. Staff in the Reserve

Accounts and Loans areas assisted depository institutions in preparing to use the discount window as a contingency source of funds. Banking Supervision ensured that supervised institutions successfully completed their preparations for the transition. Federal Reserve efforts to inform the public about the banking system's readiness for the rollover helped reduce anxiety in the period leading up to the event. Bank staff provided information about the industry's preparations through 247 speeches and panel presentations that reached an estimated 11,000 individuals. Videos and print and broadcast media interviews, including radio and television appearances, reached even broader audiences.

Bank management and staff also took steps in 1999 to ensure continued success in the dynamic economy envisioned for the 21st century. Most importantly, a new strategic plan was completed that better aligns the Bank's mission, vision, and longer-term goals to the new challenges presented by the rapidly changing banking and financial system. The plan was developed with substantial input from customers and employees and includes new strategies and initiatives to improve performance in all areas of the Bank. Mr. Broaddus and Mr. Varvel introduced the plan in a series of meetings throughout the District to ensure that all staff members understood the contribution of their individual job assignments to the Bank's overall strategy.

Economic Research and Public Outreach

The Bank continued to produce economic research relevant to the Federal Reserve's monetary and banking policies, the Fifth District economy, and the payments system. Research staff supplied timely analyses of current policy issues and advised the Bank president in his preparation for the Federal Open Market Committee meetings. They also provided senior management with comprehensive analytical support in meeting banking and payments system responsibilities.

The Bank conveyed information about the Fifth District, the national economy, and Federal Reserve monetary policy through its public outreach. In 1999, over 200,000 copies of 16 Bank publications were distributed. The Bank's business magazine, *Region Focus*, increased circulation and garnered four more awards for journalistic merit, bringing the total number of awards to 10 since it was first published in 1997. The *Economic Quarterly* continued to receive positive feedback from respected economists and institutions at home and abroad, and the Bank's Web site provided expanded access to Bank publications, the president's speeches, and regional economic information.

Several economic education programs provided further opportunities for information-sharing. The Bank joined forces with the E. Angus Powell Endowment for Economic Education to host a national teachers' conference attended by 100 teachers from 28 states.

The Bank also sponsored its first Districtwide Fed Challenge competition for high school students and cosponsored an innovative graduate course for economics teachers of deaf and hard-of-hearing students with Gallaudet University in Washington, D.C.

The Community Affairs Office supported the Federal Reserve System's efforts to encourage community reinvestment in several ways. These included a joint initiative with the Board of Governors' Community Affairs staff to promote better small business access to capital and credit in the District of Columbia's lower income neighborhoods.

Banking Supervision

The overall condition of banking organizations in the Fifth District remained strong in 1999. At year-end, the Bank supervised 230 bank holding companies that controlled total assets of approximately \$1.1 trillion — the second highest total in the Federal Reserve System. Additionally, both the number of state member banks and the total assets of these banks were among the highest in the System. While merger activity decreased the number of state member banks by 23, five new state member banks opened, and three existing banks converted to state member status for a total of 128 banks with \$94 billion in assets.

The Bank implemented a comprehensive strategy involving specialized teams of examiners to supervise large, complex banking organizations headquartered in the District and assigned senior examiners as central points

of contact for all financial institutions with more than \$1 billion in assets. In order to improve supervisory coordination, the Bank participated in joint, targeted reviews of the three largest banking organizations in the District with the Comptroller of the Currency and conducted joint meetings with senior management of these organizations. Coordination of examinations and inspections with regulators of other District banks improved in 1999; 30 state member bank examinations were conducted jointly with state regulators.

Financial Services and Other Operations

The financial services areas provided high quality, customer-focused services to depository institutions and the U.S. Treasury during 1999 and further improved most service-level effectiveness and quality measures. The Bank realized a financial services cost recovery rate of 103.9 percent for the year and met nearly all key service quality targets.

During 1999 the Bank participated in the first Federal Reserve System survey to measure customer satisfaction. In addition, it conducted a Fifth District quality survey for the Accounting, Automated Clearinghouse, Business Development, and Funds Transfer services. The results of both surveys indicated a high level of satisfaction with these services. Additionally, the District led efforts to enlist large credit unions as savings bond agents and

trained their staffs in savings bond marketing. The financial services areas also took steps to utilize new technology to improve services. Check Processing introduced high-speed commercial check imaging systems in three District offices and increased the number of customers using check imaging services by 19. Bank staff also introduced new technology to process savings bond applications more efficiently and converted additional offline customers to electronic connections.

Staff at the Charlotte Office successfully met the challenges associated with serving as the key Federal Reserve account management office for four of the nation's largest banking organizations. The rapid expansion of these institutions added significantly to that office's account management responsibilities during the year.

The Bank also provided extensive support to the U.S. Treasury and other government agencies in 1999. A Bank officer continued to serve as the System's liaison to the Treasury; he coordinated a number of joint Treasury and Federal Reserve initiatives during the year and provided consultative support. Also, Bank staff worked closely with the Treasury to improve the efficiency of government payment and collection systems. The Currency Technology Office worked actively with the Bureau of Engraving and Printing on the design for the new \$5 and \$10 notes.

As a new century begins, and in keeping with its mission and vision, the Bank will continue to foster the stability, integrity, and efficiency of the nation's monetary, financial, and payments systems.