

Message from Management

These are challenging times. Economic growth is slowing and inflation has not been consistently as low as we would like. Financial markets experienced significant disruption during 2007, and concerns about housing, mortgage foreclosures, and related financial instruments have yet to abate. The payments system is in the midst of a transformation from a paper-based system to a



more electronic system with many more payment options and risks. And pockets within our communities continue to struggle economically and financially.

In such times, people look to the central bank to understand these concerns and to intervene effectively through our monetary policy, bank supervision and regulation, payments system, and community outreach roles. The Federal Reserve's effectiveness during these periods depends on our ability to understand exceptional events, to judge whether intervention is beneficial, and if it is, to determine the most effective ways to do so.

Information sources that serve us well in "normal" times provide data that are too delayed and not rich enough in detail during more demanding times. That's why this year we are devoting our management message to thanking the many key constituencies in the Fifth District and beyond

who have helped to inform our policy and services decisions.

The Fifth Federal Reserve District is privileged to have influential and engaged boards of directors in Richmond, as well as Baltimore and Charlotte. Our directors hail from Maryland, North and South Carolina, Virginia, West Virginia, and the District of Columbia. They represent the diverse views

who have apprised us of impending issues and events.

The leadership team initiated a series of banker forums in 2007 and reached out to the many community banks in the District. This exchange of views provided insights on economic, supervision, and payments topics. The Richmond Reserve Bank's Operations Advisory Council, which includes

of business, labor, financial institutions, and of the communities that we serve. Each month these 23 directors network with their colleagues and contacts to gather details of current local economic and banking conditions in the District. This information has been timely and invaluable as we have considered complex policy and services decisions.

The District also has a unique and diverse banking environment. Two of the largest financial institutions in the United States and several large regional banks are headquartered here. During 2007, our on-site examination staff communicated daily with key individuals in these banks, which enabled them to provide data to Fed staff in risk and policy, lending, research, and legal areas. This information has proven to be critical to understanding the complex evolution of financial markets. We very much appreciate the frequent and timely conversations with senior management in these institutions

financial institution representatives from across the District, tackled strategic and operational payments issues. The number of electronic payments now exceeds the number of check payments, and we are rapidly moving to electronic collection of payments initiated as checks. Accordingly, our payments services and infrastructure are changing. We deeply value the close consultative relationships that we have developed for many years with our payments services customers. Together we are making the transition from check to electronic payments even as we look toward consolidating our local check processing operations outside the District in 2009.

We touch base with businesses throughout the District in a number of ways. During 2007, the Bank reached out directly to the CEOs of many different businesses to understand issues such as inflation and labor market trends, investment plans, and



changes in consumer behavior in response to changing economic and financial conditions. These conversations added important color to macroeconomic data. Our Small Business and Agriculture Advisory Council informed us about issues such as the spillover effects on agriculture and food prices of energy policy related to ethanol fuel. In 2007 we also convened representatives from eight companies heavily engaged in consumer payment transactions, which has helped us to better understand trends in the use of cash and other forms of retail payments.

Given our proximity to Washington, D.C., we have close relationships with a number of government agencies. As an example, our Currency Technology Office has worked closely with the Bureau of Engraving and Printing on the design of the new currency, to keep ahead of the counterfeiters. And last year we electronically transferred over \$100 trillion of payments on behalf of the U.S. Treasury. The U.S. Treasury is a partner in every sense of the word; together we have implemented innovative systems to collect government benefits and to facilitate other forms of payments and collections.

This year's Annual Report has an expanded section on our community outreach efforts. We have included a selection of photographs and text related to the economic forum that we held in Frederick, Md. This forum illustrated some of the many ways in which we partnered with banking, community development, and educational institutions to promote economic education and financial literacy in our communities.

Our Community Development Advisory Council provides us with important context and information related to these efforts.

Finally, the message of thanks to the directors, councils, banks, corporations, and community and educational organizations in the District would not be complete without a big "thank you" to our employees. We are exceedingly proud of the 2,650 people from our communities who work for us in the Richmond, Baltimore, and Charlotte offices, and elsewhere in the District. These are challenging times and our employees have stepped up to achieve our vision—"to be an innovative policy and services leader for America's economy."



Sally Green
First Vice President