



# 2010 Bank Highlights

2010 was a year of major internal and external milestones for the Federal Reserve Bank of Boston. Externally, the signing of the Dodd-Frank Wall Street Reform and Consumer Protection Act, in July, ushered in a new era of revised priorities and increased responsibilities for the Bank and the Federal Reserve System. Internally, Paul M. Connolly, the Bank's Chief Operating Officer for 16 years, retired at year end. His successor, Kenneth C. Montgomery, joined the Bank in late 2010 and was able to start off the new year at full speed. These changes occurred against a backdrop of continuing economic weakness, particularly in employment, well after the official end of the recession in June 2009. As 2011 began to unfold, the New England and national economies were beginning to show welcome signs of a more robust recovery.

## **Supervision, Regulation, and Credit.**

In the early months of 2010, while the details of the regulatory reform legislation were still being debated, Bank supervisory staff continued to apply the lessons of the financial crisis, supporting the System's efforts to strengthen the supervision of the most complex banking organizations. With the enactment of Dodd-Frank in July, supervisory personnel moved ahead with renewed direction and vigor as the System's focus shifted to the challenges of implementing this historic legislation.

Boston Fed supervisory staff provided leadership for the development and implementation of a strengthened program for the supervision of complex banking organizations. The program more effectively integrated the multi-disciplinary perspectives of a broader range of expertise within the Federal Reserve. We also shared examination staff with other Federal Reserve districts, including specialized expertise for evaluating some of the largest banks in the System and assistance with the examination of troubled regional and community banks. At the System level, we provided leadership for initiatives to develop new approaches for reviewing bank capital adequacy and incentive compensation; helped implement a methodology for evaluating capital distribution requests and improved stress testing approaches; participated in an initiative to identify, monitor, and mitigate risks associated with money market mutual funds; and contributed to several additional initiatives, including the accounting treatment of financial instruments and small business finance.

## **Economic Research.**

With the federal funds rate at or near zero, and the possibility that deflation — widespread falling prices — could occur, the year was a challenging one for the conduct of monetary policy. In both their regular research and their work to prepare the Bank's president for meetings of the Federal Open Market Committee, Bank economists focused on the challenges of conducting monetary policy in such an environment. Their work



included analyses of inflation dynamics, the effectiveness of alternative monetary policy tools, and the extent of downward nominal wage rigidity and its implications for inflation. In October, some 130 academic, business-sector, and central-banking economists gathered for the Bank's 55th economic conference to explore in depth the challenges associated with conducting monetary policy in an environment of near-zero inflation. Many of these economists had attended a Boston Fed conference on the same topic 11 years earlier; most seemed to agree that the challenges of conducting monetary policy when short term interest rates are near zero, as in 2010, were much greater in reality than they had considered would be the case in 1999.

While work to support monetary policy decision-making was a major research focus, the Bank's economists also addressed many other important topics, including the mortgage market and housing. Researchers published six papers on the dynamics of the mortgage market, the housing crash, and the effects of the Federal Reserve's first-ever purchases of mortgage-backed securities.

The Bank's four research centers — Center for Behavioral Economics, Consumer Payments Research Center, New England Public Policy Center, and Risk and Policy Analysis Unit — produced substantial, thought-provoking research. A paper by the Consumer Payments Research Center analyzed credit card fees, documenting the implicit monetary transfer to credit card users from non-card ("cash") users. This transfer occurs because cash users generally pay the same price as card users even though merchants must pay a fee to the card issuer when consumers use their card and card issuers in turn give rewards to consumers for using their card. A paper by the Risk and Policy Analysis Unit examined financing constraints for small businesses, finding empirical evidence that such constraints may indeed hamper job creation and contribute to unemployment.

### **Financial Services.**

The Bank operates three payment and funds management programs on behalf of the U.S. Treasury:

- the Internet Payment Platform (IPP), an application enabling federal agencies to handle all purchase order and invoice processing electronically in a single web-based system;
- the Stored Value Card (SVC) program, a prepaid card for use by military personnel at bases in the United States and 11 other countries worldwide; and
- a Cash Management program that enables the Treasury to streamline its collection of the public's money from depository institutions.





The newest of these programs, the Cash Management program, moved ahead significantly in 2010 with the Treasury's approval of the design for a new account structure and software application that will enable more efficient consolidation of funds and improve the Treasury's ability to monitor funds flows. In addition, planning and technology changes were completed to position the IPP to offer greater efficiencies and transparency in government spending. Several technology upgrades were implemented with regard to the Stored Value Card program.

#### **National Responsibilities.**

On behalf of all Federal Reserve Banks, the Boston Fed is responsible for the coordination of Federal Reserve System financial management and Internet and directory services. Over the course of 2010, we implemented upgrades and enhancements in these areas. In financial management, we made significant progress on a multi-year strategic plan, partnering with other System business areas to eliminate redundant editing and processing functions, expand training offerings for Reserve Bank financial management staff, and enhance depository institutions' ability to track and manage their collateral in real time. In Internet security, we enhanced our capability for addressing emerging Internet threats and reduced our time-to-market for completing new business requests by 50 percent. We also developed new analytical capabilities and strengthened our information sharing with other federal entities.

#### **Regional Outreach.**

The Bank continued to look for ways to address the problems arising from increasing foreclosures. We facilitated meetings between mortgage servicers, on the one hand, and community leaders and counseling organizations, on the other, to address delays and deficiencies in the processing of loan modifications. We also continued our engagement in efforts to revitalize the city of Springfield, Massachusetts. In Springfield, we focused on sharing the findings of our research on how some cities have more successfully addressed the challenges of deindustrialization and increasing poverty; these findings stress the importance of sustained collaborative leadership. Springfield's public and private sector leaders have found value in this approach. In addition, with an eye to Springfield's difficult fiscal circumstances, the Bank's New England Public Policy Center examined how Massachusetts distributes unrestricted municipal aid. The Center's detailed analysis showed that the distribution of aid does not align well with the needs of Massachusetts cities and towns. The Bank developed an approach for distributing new state aid that provides a closer alignment. Bank staff have been sharing this analysis with state and local officials.

The implications of the aging of New England's population were the focus of two additional studies by the New England Public Policy Center in 2010. In June, the Center released a study examining the state pension programs of the six New England states, outlining possible reforms to make the plans more age-neutral and more conducive to work at older ages — reforms that might provide some relief to the financial pressures

all plans face. In November, the Center released a study examining the future supply of skilled labor in New England, suggesting that pressure points are most likely to occur in “middle-skill” jobs.

### **Diversity and Volunteerism.**

Diversity highlights included the hosting of a six-unit Diversity Speakers Series; the creation of Bank-wide and department-wide diversity profiles; nine “listening tour” focus-group sessions; the formation of a Diversity and Inclusion Council; and the formation of a Diversity Advisory Council. With the passage of the Dodd-Frank Act, the Diversity Office was renamed and assumed the broader responsibilities of the Office of Minority and Women Inclusion, including assessing vendor diversity policies, providing technical assistance to suppliers, and assessing progress on diversity and inclusion at regulated financial institutions. Our Volunteer Office enjoyed its first full year of operation, with a full range of new volunteer opportunities being made available and significantly expanded staff participation in volunteer activities.

### **Facilities.**

The Bank made a number of changes in 2010 to upgrade and enhance our building facilities — for our own use, but, more important, to maintain the attractiveness and functionality of our facilities for the use of outside groups. In October, just in time for the 55th economic conference sponsored by the Bank, we opened a new meeting center capable of accommodating comfortably 150 to 175 people and incorporating state-of-the-art audiovisual services. The new center, named the Connolly Center in honor of retiring First Vice President Paul Connolly, was completed on a fast schedule in time to host the economic conference. We also completely redesigned the New England Economic Adventure, our on-site economic education facility featuring a gallery, theater, and learning center with interactive games, exhibits, and programs. The Adventure highlights New England’s economic history and the relationship between economic growth and standard of living. The new investment game, featuring alternative energy, provides a look at 21st century concerns.

