

BANK HIGHLIGHTS

Economic Research

Economic Research continued to produce high-quality research in monetary policy and macroeconomics, banking and financial studies, regional studies, and international economics, with a special focus on the Pacific Basin, to support the Bank's and System's policy and public outreach functions.

- Jack Beebe, who had served as director of Economic Research since 1987, retired in May 2002. John Judd, former associate director and head of the Macroeconomics section, assumed the director role. Glenn D. Rudebusch succeeded Mr. Judd as vice president and head of the Macroeconomics section.
- Twelve articles were accepted for publication in scholarly journals, and 35 working papers were published on topics such as monetary policy rules, shifts in trend productivity, bank performance in Asia, bank default probability, and the relationship among business investment, capacity, and uncertainty. Staff presented their work in seminars at institutions such as the Bank of England, the Brookings Institute, and at the National Bureau for Economic Research Summer Institute, the American Economic Association meetings, and the Econometrics Society meetings. Staff also delivered numerous presentations to the public on current issues in the U.S., regional, and international economics and published 38 articles in the *FRBSF Economic Letter*.
- Staff briefed the president and boards of directors on several special topics in 2002, including the housing market, the West Coast port labor negotiations and their economic impact, and monetary policy at the zero interest bound.
- The importance of technological developments to the national economy and the prominence of technology in the Twelfth District economy led to



plans to establish a Center for Economic Research on Technology and Productivity. The center will be fully functional in late 2003 and plans include a working paper series and an annual conference.

- The Bank cohosted two professional conferences with the Stanford Institute for Economic Policy Research at Stanford University. Programs focused on “Macroeconomic Models for Monetary Policy” and “Technological Change.” Federal Reserve staff, researchers from the European Central Bank, the Bank of England, the National Bank of Belgium, and noted academics presented and discussed papers.
- The Center for Pacific Basin Monetary and Economic Studies hosted a major conference on “Financial Issues in the Pacific Basin Region.” This conference drew 75 policymakers and scholars from the U.S., Latin America, and Asia.
- For the fourth consecutive year, the Pacific Basin Center and the World Bank Institute cosponsored a week-long workshop for more than 50 senior policymakers from Africa, Asia, and North America. The 2002 conference looked at “Capital Flows, Monetary Policy, and the International Monetary System,” which provided a framework for discussing the problems of managing capital flows and conducting monetary policy in emerging markets.

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Banking Supervision & Regulation

Banking Supervision and Regulation (BS&R) continued to promote safety and soundness in the banking system by ensuring compliance with applicable laws and regulations. In addition, BS&R continued to encourage banking institutions to fulfill their Community Reinvestment Act (CRA) responsibilities by meeting the banking and credit needs of their local communities, including low- and moderate-income neighborhoods.



- The Bank led the System's Information Technology/Electronic Banking Task Force. The task force focused on the supervisory implications of emerging technologies and reliance on critical technology service providers.
- The Bank developed expertise related to regulatory issues contained in the USA Patriot Act of 2001, particularly with respect to broker dealers and mutual fund management within financial holding companies.
- The Bank developed and piloted a "Problem Bank School" that provides practical tools to identify and supervise institutions facing deteriorating financial conditions.
- To assist in the supervision of foreign banking organizations, the Bank completed two long-term policy studies on Information Technology and Bank Supervision and on Corporate Governance Practices in Asia's newly industrialized countries: Hong Kong, Singapore, South Korea, and Taiwan.
- The Bank implemented a comprehensive risk-monitoring program under which all state member banks are assigned to one of three risk tiers based on individual risk assessments.
- The Bank continued its leadership role promoting access to credit and financial services for Native communities. The Bank cosponsored the System conference on lending in Indian communities, which attracted over 400 participants from banking and economic development sectors and representatives from 57 tribal nations. Additionally, the Bank coordinated financial literacy "train the trainer" sessions that reached over 300 trainers from Native American, Native Hawaiian, and Native Alaskan communities.
- In support of CRA activities, the Bank continued its sponsorship of the annual National Community Development Lending School and CRA Leadership Councils and Roundtables, and convened meetings for the Association for Investment Consortia for Housing and the Economic Development Consortia Roundtable.

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Financial Services and Services to the U.S. Treasury

During 2002 the Bank made significant progress toward its goals of improving customer service, streamlining operations, and reducing costs. These goals support the Bank's efforts to bring its cost structure, products, and operational efficiency in line with the dramatic changes in the financial services industry as institutions are challenged to provide faster, lower cost services to their customers.



- The Bank established a consolidated customer support center for Cash and Accounting customers and plans to expand this service to Check customers in 2003. The center is designed to provide customers with consistent service quality and after-sales support.
- The District's five check operations successfully converted to the new standard check platform as part of the System's Check Modernization Initiative to standardize check processing across all Reserve Banks.
- The Bank provided national leadership for the final conversions to the Enterprise Wide Adjustments platform across the System, another component of the Check Modernization Initiative.
- The Bank successfully piloted the Check to Automated Clearing House Conversion product with the Cleveland Reserve Bank. Developed in 2001, this electronic check-clearing product significantly speeds up the check clearing process and minimizes the handling of paper checks.
- The Bank successfully implemented Standard Cash Automation in the Portland and Los Angeles offices to complete the District's conversion to the Federal Reserve-standard automated coin and currency inventory tracking application.
- The Bank achieved significant productivity gains in cash processing during 2002. Measured in bundles processed per hour, the Bank averaged an 8.3 percent increase in productivity, resulting in significant cost savings.
- During 2002 the U.S. Treasury collected \$2.8 billion through the use of the FedDebt and Treasury Offset programs, two software applications developed by the Bank. The Treasury awarded the Bank additional application development contracts following the success of these products.

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Outreach

The Bank continued its educational outreach programs for the public on the purposes and functions of the Federal Reserve System. During 2002 the Bank also established a Community Perspectives program to support outreach efforts to community banks.

- The Bank launched a new Community Perspectives program to host forums around the District where community bankers and business leaders can provide input to the Bank on issues of regional importance. The Bank established the program to ensure that it maintains critical touchpoints with financial institutions, particularly at the senior management level, in light of a national shift in business development strategies.
- The Bank piloted a new program for university economics, finance, and business students. The symposia are designed to educate participants about the national economy, the function of the Federal Open Market Committee (FOMC), and the role of the central bank. In another effort, the Bank developed a central banking curriculum to accompany an international trade summit for high school students.



- The Bank's leadership role for the System's 2003 Financial Literacy Initiative resulted in the production of a public service announcement (PSA) in English and Spanish. To support the campaign, the Bank contributed to the development of a campaign brochure and a financial resources page on the System's education Web site, federalreserveeducation.org. Additionally, the Bank produced a financial education resource page on frbsf.org, the Twelfth District's Web site.