



(Left to Right)

John F. Moore

First Vice President and Chief Operating Officer

David K.Y. Tang

Chairman (2008)

Janet L. Yellen

President and Chief Executive Officer

T. Gary Rogers

Deputy Chairman (2008)
and Chairman (2009)



Letter from the President

In 2008, the U.S. economy was gripped by what could well be the most severe recession since World War II. The downturn put enormous stresses on the nation's financial system and presented the Federal Reserve with some of the greatest challenges in its history. Federal Reserve policymakers responded forcefully by pushing the central bank's key interest rate close to zero and putting in place an array of unconventional policy initiatives designed to ease conditions in private credit markets. In the new year, the Federal Reserve has broadened and deepened these programs, signaling its commitment to use every tool at its disposal to restore economic growth.

The early part of 2008 saw the effects of a slumping housing market wash over the financial system, threatening the viability of major financial institutions. As the housing downturn deepened and millions of Americans found themselves facing foreclosure, credit markets went into a deep freeze, and consumers and businesses had an increasingly hard time obtaining credit. By the fall, losses at a number of systemically important depository and non-depository financial institutions reached the breaking point. The Federal Reserve took aggressive action to fulfill its role as lender of last resort, easing rates and terms for discount window loans and extending credit in new areas, such as the commercial paper and government-sponsored-agency debt markets. The central bank also worked in tandem with the Treasury Department and other federal agencies to shore up the banking system and check the spread of financial turmoil. Still, the financial crisis took a toll on the real economy, which contracted at the fastest pace in a generation during the fourth quarter of 2008.

The recession has hit this Reserve District especially hard. Unemployment in three District states—Oregon, California, and Nevada—exceeded 10 percent in March of this year, putting them

among the seven states with the highest unemployment rates in the nation. Several regions in the Twelfth District experienced some of the nation's most explosive housing booms in the middle of the decade, and now are going through some of the most punishing reversals.

The Federal Reserve Bank of San Francisco is playing a vital part in promoting economic recovery. We are working with District financial institutions to make credit more affordable and more easily available to creditworthy borrowers, and we are playing an integral part in developing and implementing policies that will help put the economy back on its feet and strengthen the banking system.

This report features a series of articles written by the major areas of our Bank that are working to promote economic recovery. The report recaps the economic and financial turmoil that unfolded during 2008 and the policy initiatives and programs the Federal Reserve and this Bank have put in place to combat the crisis. A profile of our Bank's discount window highlights the important role this area is playing as the lender of last resort. Another profile looks at a new policy our Bank implemented during the year to pay interest on bank reserves. This report also examines challenges in the banking industry during the year, both in our District and nationally, and looks at how we are monitoring banks during the crisis and working with them to provide access to Federal Reserve and government programs and to strengthen the banking system. In other banking-related activities, the report examines new research by our Bank that revisits the importance of the Community Reinvestment Act and dispels claims that it contributed to the crisis.

I am fortunate to work with the dedicated economic and banking experts who have provided me with regular briefings and counsel during the financial crisis. Our Bank's strong operational

performance in 2008, despite significant challenges, indicates a steadfast commitment by individuals throughout our Bank. In financial services, our Business Development unit ended the year as the number one sales team in the Federal Reserve System. In another example of excellence, the Seattle Branch partnered with the Retail Payments Office to create a new capture/print check processing model for the System and was selected as the beta site to implement the model.

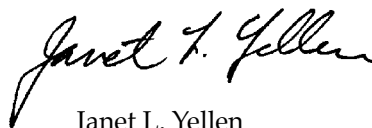
In a major milestone in the history of our Reserve Bank, the Seattle Branch dedicated its new building, capping a multi-year construction project. The Highlights of 2008 section of this report chronicles this and our other significant events and achievements during the year.

In this challenging year, I would like to take this opportunity to thank our staff in all areas of the Bank for their commitment and public service. I also would like to extend my thanks and appreciation to our Twelfth District directors and Economic Advisory Council members for their invaluable service and counsel during the past year. The directors' grassroots input and independent assessment of economic and financial conditions throughout the nine western states that comprise this District are essential to the formulation of monetary policy.

In particular, I would like to acknowledge the many contributions of retiring Chairman of the Board David K.Y. Tang, managing partner, Asia, K&L Gates, Seattle, Washington. Mr. Tang completed six years of service to this Reserve Bank, the last three years serving as its chairman, preceded by a year as its deputy chairman. I also would like to acknowledge Candace H. Wiest, president and chief executive officer, West Valley National Bank, Avondale, Arizona, who completed her service on the Head Office Board at the end of 2008 after serving six years as a director.

In addition, I would like to express my sincere thanks and appreciation to the other directors and Economic Advisory Council members who concluded their terms of service during 2008:

- **on the Los Angeles Branch Board:** Peter M. Thomas, managing partner, Thomas & Mack Co., Las Vegas, Nevada;
- **on the Portland Branch Board:** Alan V. Johnson, regional president, Wells Fargo Bank, Portland, Oregon; George J. Puentes, president, Don Pancho Authentic Mexican Foods, Inc., Salem, Oregon; and William D. Thorndike, Jr., chairman and president, Medford Fabrication, Medford, Oregon;
- **on the Salt Lake City Branch Board:** A. Scott Anderson, president and chief executive officer, Zions Bank, Salt Lake City, Utah; and Deborah S. Bayle, president and chief executive officer, United Way of Salt Lake, Salt Lake City, Utah;
- **on the Seattle Branch Board:** James R. Gill, president, Pacific Northwest Title Holding Co., Seattle, Washington; Kenneth M. Kirkpatrick, president, Washington State, U.S. Bank, Seattle, Washington; and H. Stewart Parker, former president and chief executive officer, Targeted Genetics Corporation, Seattle, Washington; and
- **on the Twelfth District Economic Advisory Council:** Vivek Paul, former partner, Texas Pacific Group, San Francisco, California.



Janet L. Yellen
President and Chief Executive Officer