

2013 Annual Report

The Long-Awaited Housing Recovery

The Many Dimensions of the Dallas Fed Year in Review

In 2013, the Federal Reserve Bank of Dallas contributed to the mission of the Federal Reserve System, serving and supervising financial institutions in the Eleventh District, working for a stronger payments system, conducting research into important issues affecting monetary policy, and circulating and ensuring the fitness of the nation's currency.

At the same time, the Bank was active throughout the district, fostering financial education, supporting wealth building and neighborhood improvement initiatives, setting an example for environmental responsibility and supporting communities through volunteer projects.

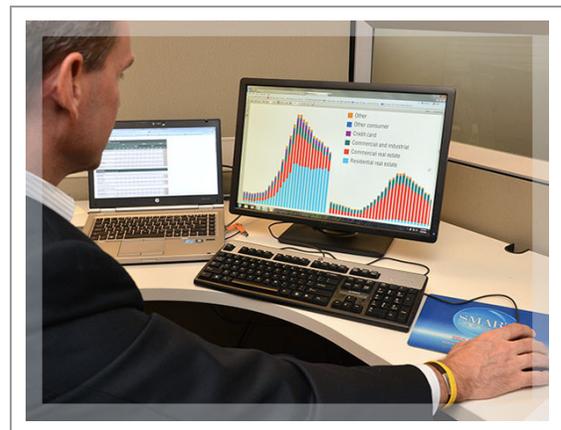
Ensuring Strong Financial Institutions

Americans expect a strong and reliable banking system. In the Eleventh District, Dallas Fed staff work hard to ensure that a growing number of financial institutions under Federal Reserve supervision—including nine new state member banks in 2013—operate safely and soundly.

In response to increased supervisory responsibility for large financial institutions in the South Texas area, the Dallas Fed began staffing its San Antonio Branch with bank examiners. Over time, the move means reduced travel costs for the Fed and more efficient communication between the Fed and local banks.

“We have some large financial institutions in San Antonio making it beneficial to have a local presence to coordinate supervisory activities,” said Ann Worthy, senior vice president responsible for the Dallas Fed’s Banking Supervision Department. “With supervisors on the ground in San Antonio, we minimize the need for constant travel and make it easier for our examiners to meet face-to-face with financial institution officials.”

In 2013, the Dallas Fed enhanced the examination process for community banks through technology solutions that included the electronic exchange of documents with banks and creation of an online collaborative workspace to generate and store examiner work products in a secure environment. “These strategies will streamline community bank exams and potentially reduce the regulatory burden for banks under Fed supervision,” Worthy said.



Dallas Fed Banking Supervision staff conduct both on-site exams and off-site monitoring of financial institutions in the Eleventh Federal Reserve District. The department began adopting new technologies in 2013 that will help streamline the supervision process for community banks in the region.

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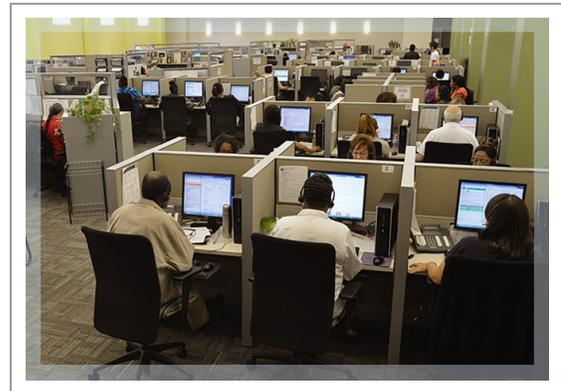
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Making Payments More Efficient

The Fed plays a vital role in the nation’s continually evolving payments system, aiming to make payments more secure and efficient. In 2013, the Dallas Fed supported this goal through its work on behalf of the U.S. Treasury and its outreach to payments operators in the Eleventh District.

Since 2005, the Dallas Fed has operated the *Go Direct*[®] contact center, where call agents work to convert recipients of federal benefits—including Social Security and Veterans Administration payments—from paper check to direct deposit. Direct deposits deliver the payments more efficiently than through paper, with potential savings to the U.S. government of \$1 billion over 10 years.

In 2010, the Treasury Department mandated that recipients with benefits delivered by paper checks would have to convert to direct deposit by March 1, 2013. The March deadline meant there would be a large spike in calls at the contact center early in 2013. Anticipating the onslaught, the Bank doubled its call center’s staff, training hundreds of new agents. From January to April 2013, the center handled nearly 1.1 million calls, compared with almost 500,000 during the same period in 2012.



Agents in the Bank’s *Go Direct*[®] contact center handled more than 1.5 million calls in 2013, helping convert Americans’ federal benefits payments from check to direct deposit.

“We called that time period the ‘big wave,’” said Harvey Mitchell, the Dallas Fed senior vice president responsible for the call center. “Every seat in the center was filled, and agents were taking call after call from folks rushing to convert to direct deposit by March 1. And this high volume didn’t just affect the call center—it also required a lot of hard work from other business areas at the Bank, such as information technology, telecommunications, human resources, print services and law enforcement.”

The call center continued to see high call volumes throughout 2013. Fewer than 2 million recipients have yet to enroll in direct deposit for their benefit payments.

As the Federal Reserve System is taking a deep look into the future of payments, the Dallas Fed is working to stay informed about developments in the payments industry. Staff continued to closely monitor how individuals and companies transact business as the nation moves away from cash and paper checks to electronic payment alternatives.

The Bank drew on the expertise of the Corporate Payments Council—a group of 12 representatives from firms in the region—that it formed in 2012 to gather valuable information about how payments systems can be improved.

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“The Fed is committed to increasing its view of the U.S. payments system as a whole,” said Matthew Davies, the Dallas Fed’s payments outreach officer. “The feedback we receive from the council is extremely beneficial and helps the Federal Reserve System shape the future of payments regulations and systems.”

Expanding the Reach of Research

Amid the slow recovery from the Great Recession, the Dallas Fed deepened its study of the regional economy to keep the public informed about economic developments close to home and increased its analysis of the national and international economies.

The Bank last year expanded its regional research with a series of timely online economic updates and indicators tracking employment and other trends, and shed light on important issues facing the region in its quarterly *Southwest Economy* and in other publications.

A revival of the U.S. energy industry driven by advances in shale extraction technologies has been a catalyst for the Bank to demonstrate its expertise in the field of energy economics. In 2013, researchers launched “Energy in the Eleventh District,” an online summary of oil and gas activity that covers shale production regions such as the Eagle Ford in South Texas.

The Bank focused research on immigration issues and economic linkages with Mexico. In 2013, researchers produced the special report “Gone to Texas: Immigration and the Transformation of the Texas Economy” and authored reports on the border economy. The Bank strengthened its ties with Banco de México, including holding a joint branch board meeting.

“Throughout the year, our staff conducted significant research on issues relevant to the people of our region and the nation—including the banking crisis, housing, energy and immigration—and contributed to economic research on inflation and globalization,” said Mine Yücel, senior vice president and director of research. “We were recognized nationally and internationally for our work.”



The Dallas Fed expanded its expertise in energy economics in 2013 with the online feature “Energy in the Eleventh District,” which tracks activity in major U.S. oil and gas production regions such as the Eagle Ford Shale in South Texas. Advances in extraction technology have reignited activity in the sector in the U.S.

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The Dallas Fed continued to call attention to the dangers of “too big to fail” banks. Researchers examined these systemically important financial institutions through the Bank’s 2012 Annual Report, “Vanquishing Too Big to Fail,” and other works published in 2013. A *Staff Paper* placing an estimated dollar figure on the financial crisis—“How Bad Was It? The Costs and Consequences of the 2007-09 Financial Crisis”—continued to register downloads on the Bank website months after its summer release.

With its Globalization and Monetary Policy Institute, the Bank also advanced understanding of how international forces impact the economy. This group of researchers and research associates, with the support of distinguished fellows and advisory board members, produced more than 30 working papers on subjects ranging from exchange rate pass-through to sovereign debt restructuring. Notable work included development of the Database of Global Economic Indicators to standardize world economic indicators for policy analysis. Reports on China, including the *Economic Letter* “Value-Added Data Recast the U.S.-China Trade Deficit,” were widely circulated as readers sought insights into the enigmatic nation.

Staff published works in a dozen peer-reviewed journals and presented their findings at conferences worldwide. The Bank hosted four major conferences in 2013 that included “The Causes and Macroeconomic Consequences of Uncertainty.” The globalization institute cosponsored “International Capital Flows and Safe Assets” in Shanghai, China, and two other international forums.

Advancing Economic Education

A public educated in basic economic and financial principles helps strengthen the U.S. economy. Through teacher workshops, events and presentations, the Bank seeks to advance understanding of economics and improve financial literacy.

In 2013, the Dallas Fed built on efforts to use state-of-the-art technology in economics and personal finance instruction. Staff fine-tuned an interactive whiteboard curriculum, rolling it out to teachers through workshops across the district. Adding fun to an often challenging subject, the lessons incorporate a game to help students understand investments, and a Beige Book simulation in which players can evaluate economic indicators and decide how the interest-setting Federal Open Market Committee should respond.



As part of its educational mission, the Bank offers a curriculum based on interactive whiteboard technology to help make economics and personal finance concepts easier to grasp. Stephen Clayton, a Dallas Fed economic education specialist, demonstrates the whiteboard to visiting students from Weatherford (Texas) High School.

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“Students learn the basics through competition,” said Sherry Kiser, director of economic education, explaining that the investment game allows players to explore a variety of options through the layers of a cake. Ultimately, she said, students “learn that investing is a long-term endeavor.”

The Dallas Fed’s focus has been to capitalize on the “multiplier effect”—working with educators primarily in high schools and centers of higher learning so that they can relay knowledge to students. The Bank hosted continuing-education sessions for teachers and found soaring interest as educators sought to better understand, and explain to students, the economic headlines in the aftermath of the financial crisis.

The Bank’s educational programs were enhanced in 2013 through The Economy in Action multimedia exhibit in the lobby of the Dallas headquarters building. The free exhibit covers the history and functions of the Federal Reserve and features interactive displays and games to convey information about money and the economy.

The exhibit drew thousands of visitors in its first full year—more than 700 on a single day as the Bank partnered with the Bureau of Engraving and Printing for an open house that featured a sneak preview of the new \$100 note.

“Visitors came away knowing the new note is hard for counterfeiters to duplicate—but easy for the public to authenticate,” said Richard Mase, vice president in charge of the Dallas Fed’s cash operations.



The Dallas Fed invited the public to view its new exhibit, The Economy in Action, which uses interactive displays and bright graphics to familiarize visitors with the Federal Reserve and its history, monetary policy and the regional economy. In July 2013, the Bank partnered with the Bureau of Engraving and Printing for an exhibit open house that featured a look at the new \$100 bill.

Partnering with Communities

Often working behind the scenes, the Dallas Fed supports efforts to stabilize decaying neighborhoods, encourage small-business development, ensure adequate supplies of low-income housing and promote asset building among individuals and families. The Bank is a source of knowledge and empowerment for many groups involved in these pursuits.

“Small organizations only have so much horsepower,” said Alfreda Norman, the Bank’s vice president and community development officer. “We are a partner on the ground, hosting community forums, recruiting community partners or doing whatever it takes. We help raise awareness for important community initiatives.”

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Carrying out the Federal Reserve’s mission to foster economic growth, the Dallas Fed convened or collaborated on programs and events promoting financial stability, healthy communities and small-business development in 2013. An example was the Bank’s work on behalf of veterans, whose numbers are large in the Eleventh District. The region is home to major military bases such as Fort Bliss and Fort Hood.

Representing a vast store of what Norman calls “human capital,” returning veterans can be important assets to their communities. At events in Dallas, Houston, San Antonio, Corpus Christi and El Paso in 2013, the Bank partnered with organizations to provide resources to veterans interested in starting or expanding small businesses.

“You hear about job fairs—hiring veterans—but not a lot of folks work with veterans around the issue of small-business development,” Norman said.

Reducing Our Environmental Footprint

The Dallas Fed is committed to environmental responsibility. In recent years, the Bank has enacted a variety of initiatives aimed at curbing water and electrical consumption, increasing recycling and reducing waste.

In 2013, that dedication resulted in new efforts to find more sustainable uses for shredded currency. When Federal Reserve notes are worn, torn or no longer fit for circulation, they are destroyed. On average, 33 million Federal Reserve notes were shredded in the Eleventh District every month in 2013.



Daron Peschel (right), vice president in charge of the Dallas Fed’s Houston Branch, welcomes a guest during the “Houston Regional Veterans Business Summit: Where Opportunity Meets Action!” As part of its community development outreach, the Bank cosponsored events in several cities in 2013 to bring resources to veterans interested in starting or expanding businesses.



The Dallas Fed shredded about 33 million Federal Reserve notes a month in 2013 at its three cash processing facilities in Dallas, Houston and El Paso. New waste-reduction efforts have found beneficial uses for hundreds of tons of shredded currency a year.

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The Dallas office began sending shredded currency to a local waste company that turns the worn-out currency into fuel for a kiln at a nearby cement plant. The new process will allow 160 tons a year of shredded money to be used as a substitute for oil and other fossil fuels in the kiln.

In Houston, shredded currency is being used as an alternative daily cover—the material placed on top of landfill waste as it degrades. Federal regulations require that landfills use daily covers, which protect public health and reduce odors. In 2013, this amounted to 145 tons of shredded currency.

“Considering how much currency is shredded, it’s fortunate we can make productive use of it,” said Michelle Treviño, assistant vice president responsible for the Bank’s Houston cash operations. “It’s satisfying knowing U.S. currency has a second life after it’s removed from circulation.”

The Bank took steps to reduce the environmental impact of its facilities as well in 2013, reducing water use through an enhanced irrigation system, increasing efficiencies in air-handling and cooling tower systems, installing more LED lights throughout its buildings and even recycling old ceiling tiles.

Volunteering in the District

Dallas Fed employees worked to enrich their surrounding communities in 2013, donating time and resources to local schools and causes such as United Way, Meals on Wheels and March of Dimes.

The Bank’s connections with the schools run deep. Fed employees have cultivated special bonds with students and educators at two local elementary schools since the 1980s.

The Dallas office’s partnership with Margaret B. Henderson Elementary School reached its 28th year in 2013 and is the only original business-school partnership still intact from the Dallas Chamber of Commerce’s Adopt-A-School program. Every year, Dallas Fed employees support the school in a number of ways, including a school-supply drive and an Adopt-A-Family initiative during the winter holidays. Weekly tutoring sessions are at the heart of the partnership that began in 1985.

Each week, groups of Bank employees tutor third through fifth graders in need of extra help with math and reading. Corey Jackson, an information technology employee who has tutored at Henderson for seven years, said he enjoys helping third-grade students reach “that ‘aha’ moment” when they solve a math problem.



Joezi Xe from the Dallas Fed’s Houston Branch reads to students at Sherman Elementary School. The branch celebrated the 25-year anniversary of its partnership with Sherman in 2013—the longest business-elementary school partnership in the Houston Independent School District.

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The Bank's Houston Branch in 2013 celebrated the 25th anniversary of its association with Sherman Elementary School—the longest-standing elementary school partnership in the Houston Independent School District. Employees hold weekly tutoring sessions and exchange bimonthly pen-pal letters with the children to help them develop their writing skills.

Other activities with Sherman include storytelling, an economic essay contest, encouragement cards and a holiday gift program for students in need. Sherman students cap their school year with a field trip to the Houston Branch, where they learn more about the Fed and its employees.

“The children from Sherman have touched our lives and enriched our experience at the Bank in so many ways,” said Daron Peschel, vice president in charge of the Houston Branch.