

Message from the

President



It would be a gross understatement to say that 2008 was an eventful year for financial markets. The decline in the nation's housing sector led to increasing asset-quality problems at banks and other financial institutions. Stresses in the financial sector that first appeared in 2007 gained momentum in 2008. A desire to hoard liquidity and general uncertainty about the condition of borrowers made some banks reluctant to lend even to each other, much less to the general public.

With financial turmoil spreading, the Federal Reserve responded in both traditional and nontraditional ways. The Federal Open Market Committee (FOMC) lowered the federal funds rate seven times in 2008, and at year's end the rate approached zero. The Board of Governors also approved accompanying reductions in the discount rate. But the Federal Reserve recognized that these usual responses to financial market stresses had to be augmented with innovative approaches to cope with events unraveling at such a rapid pace.

Over the course of a year, we rolled out a number of major initiatives: a lending facility for primary securities dealers, accepting new forms of collateral to secure those loans; so-called swap lines with the central banks of 14 of our major trading partners to alleviate dollar-

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funding problems in those markets; facilities to backstop money market mutual funds; measures coordinated with the U.S. Treasury and the Federal Deposit Insurance Corp. to strengthen the security of certain banks; a major program to purchase commercial paper, a critical component of the financial system; and interest payments on bank reserves.

We also announced a facility to support the issuance of asset-backed securities collateralized by auto, credit card and student loans and loans guaranteed by the Small Business Administration. And at the end of November, we announced we stood ready to purchase up to \$100 billion of the direct obligations of Fannie Mae, Freddie Mac and the Federal Home Loan Banks, as well as \$500 billion in mortgage-backed securities guaranteed by Fannie, Freddie and Ginnie Mae.

The Federal Reserve Bank of Dallas played an important role in the functioning of the new facilities. The Dallas Fed is responsible for developing and implementing the application used by all Reserve Banks for discount window and other types of lending, as well as monitoring the condition of depository institutions. Overcoming a number of challenges under very tight timetables as the new facilities came online, we demonstrated our commitment to making significant contributions within the Federal Reserve System.

A summary of the Federal Reserve's actions to help stabilize the nation's financial markets—including the facilities created, the purchases made to support credit markets and the assistance provided to help resolve the failures of some large financial firms—can be seen

in the Federal Reserve's balance sheet. At the end of 2007, the assets at all Federal Reserve Banks totaled about \$900 billion. By the end of 2008, the System's balance sheet stood at \$2.3 trillion. The challenge for monetary policy makers in the future will be how and when to get the Fed's balance sheet back to "normal."

Stability Amid the Storm

During a time of dramatic change, the Federal Reserve continues to promote the integrity and efficiency of the nation's payments system. As the use of paper checks declines, the Fed has sped up the consolidation of check-processing sites. In November, the Fed announced that the Cleveland Fed will serve as the sole paper-check-processing and adjustments site and the Atlanta Fed will serve as the sole electronic-check-processing site for the entire System. The transition to these single sites will likely occur by the end of 2009.

The Dallas Fed contributed to this transition in several ways, including facilitating the consolidation of the Kansas City Fed's check-processing operations into Dallas in 2008. Dallas was also selected as the lead site for data-entry consolidation, with responsibility for coordination of the System's check-related adjustments processing. The shift from paper checks to electronic payments is benefiting consumers and businesses, and the Reserve Banks are ensuring our infrastructure matches the needs of the payments system while encouraging the use of safer, faster electronic payments.

Amid the financial upheaval, timely eco-

conomic information has been in high demand in the Eleventh District. The Dallas Fed reached out to the communities we serve by providing a wide array of public and educational programs in 2008. We spoke to business and community leaders in Abilene, Dallas, Fort Worth, Houston, Midland, San Antonio, Waco and Wichita Falls, and the Bank hosted more than 75 conferences and events, including special visits by over 20 community bank boards of directors.

In response to the nation's mortgage foreclosure crisis, the Federal Reserve System introduced the Homeownership and Mortgage Initiative, offering information and identifying resources to help address the rising number of home foreclosures. The Dallas Fed hosted community meetings with key stakeholders to discuss actions local communities can take to help preserve homeownership. We also launched the Foreclosure Resource Center on our website, featuring at-a-glance resources and a foreclosure mitigation tool kit for community leaders, mortgage counselors and consumers. We assisted in planning and implementing foreclosure mitigation workshops, attended by more than 1,000 homeowners. These actions are among the ways the Federal Reserve has stepped in to address the economic health of local communities.

Last year, I relied more heavily than ever on our Research and Financial Industry Studies departments, turning to them again and again as events unfolded. They worked tirelessly to contribute to a technical understanding of our current situation, supplying daily analyses, memos and briefings as I prepared for FOMC meetings.

I also drew on their work, and that of many others at the Bank, in preparing my speeches. Offering insight into what the Federal Reserve does is a big part of my job, and our staff is a big part of the reason I'm able to do that. I may be the guy on stage, but I have a talented crew behind the scenes backing me up. You'll find the fruits of their labor in "The Financial Crisis: Connecting the Dots," which features excerpts from some of last year's speeches and a Q&A I did with our own *Southwest Economy*.

The global scope of the financial crisis has made the work of the Dallas Fed's Globalization and Monetary Policy Institute all the more relevant. In its first full year, the institute made significant strides toward advancing our understanding of what globalization means for monetary policy. While young, this institute has produced a hefty volume of original work and analysis through a series of working papers available on our website. I am extremely proud of the progress this group has made.

These are complex, trying times. Our economy faces a tough road. We are the nation's central bank, and we are duty bound to apply every tool we can to get back on the track of sustainable economic growth with price stability. The women and men of the Dallas Fed are dedicated to the pursuit of this goal.



Richard W. Fisher

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