

Year in Review

The Federal Reserve Bank of Dallas, with branches in Houston, San Antonio and El Paso, serves the Eleventh Federal Reserve District, made up of Texas, southern New Mexico and northern Louisiana. This important region employs over 11 million workers and produces an economic output greater than that of Mexico or Australia and, until recently, India.

The regional economy emerged from recession during 2010, posting 2.2 percent job growth and adding 241,000 jobs, more than any other Federal Reserve District. Economic growth varied over the year; rapid job growth in late spring was followed by a weak third quarter, but by year's end, employment was growing more consistently. Areas of the economy that turned in especially strong growth included the energy and service sectors. Encouragingly, hard-hit sectors such as manufacturing and construction also began improving, though problems in residential and commercial real estate remained evident.

The district faces a number of challenges, including funding health and education spending in a difficult budgetary environment. Nevertheless, due to its favorable business climate, diversified economy and entrepreneurial spirit, the Eleventh District likely will continue to outperform the nation.

Financial and Treasury Services

The Dallas Fed contributes to the district's vibrant economy by ensuring an efficient, stable and secure payments system. In 2010, the Bank provided cash services to more than 4,000 financial institutions and branches. The Dallas Fed circulated 5.8 million notes valued at more than \$105 billion.

To improve efficiency and reduce operating costs, the Bank announced that a cash depot arrangement will replace San Antonio cash services in 2011. Such a depot uses an off-site facility, usually operated by an armored carrier, as the point of delivery and receipt for cash. Currency processing and storage is provided by another Fed location—in this case, the Houston office.

The Dallas Fed wound down its check services, transferring those operations to the Atlanta Fed. Every aspect of the transition was completed on time and met or exceeded expectations.

An important function of the Federal Reserve is providing services to the U.S. Department of the Treasury. The *Go Direct*®

contact center—established at the Dallas Fed in 2004—helps the Treasury reduce the number of paper checks by enrolling federal benefit recipients in direct deposit. In 2010, the contact center processed about 590,000 enrollments and has processed more than 3 million enrollments since its inception.

Go Direct is preparing for the U.S. Treasury's all-electronic payment initiative—which will mandate the direct deposit of all non-tax-related federal benefit payments. The initiative is expected to save the Treasury approximately \$300 million over the next five years. The contact center is projected to process more than 5 million enrollments by the March 1, 2013, deadline.

Banking Supervision

The Dallas Fed helps ensure the safety and soundness of financial institutions through its lending programs and supervisory activities. Lending programs offered through the discount window help relieve liquidity strains by providing a source of short-term funding to depository institutions.

As financial markets strengthened in 2010, the Bank's discount window continued to provide a ready backstop that helped maintain market confidence by issuing 156 loans totaling approximately \$3 billion. Additionally, discount window staff played an important role in the Federal Reserve System's new term deposit facility—a program through which Federal Reserve Banks offer interest-bearing term deposits to eligible institutions.

The Dallas Fed's banking supervision and regulation activities contributed to financial safety and soundness, both within the Eleventh District and nationwide. At year-end 2010, the Dallas Fed supervised 36 state member banks and 526 bank holding companies ranging from more than \$50 billion to less than \$20 million in total assets.

The Eleventh District banking system outperformed the rest of the nation in 2010, allowing the Dallas Fed to lend examination staff to other districts where unfavorable conditions required additional examination resources.

The Dodd-Frank Wall Street Reform and Consumer Protection Act will bring new responsibilities to banking supervision in 2011, including supervisory responsibility for thrift holding companies. The groundwork laid in 2010 has positioned the Bank well to assume these responsibilities.



Research and Public Outreach

Through an array of publications, public programs and outreach efforts, the Dallas Fed provides valuable research and insight to enhance public understanding of the global, national and regional economies.

In 2010, the Bank expanded its web presence by adding two new monthly research publications to the website—one that provides a discussion of inflation developments (*Behind the Numbers: PCE Inflation Update*) and another that offers a snapshot of the regional economy (*Texas Economic Indicators*).

The Dallas Fed organized a number of research conferences in 2010. “U.S. and Mexico Manufacturing: Common Bonds” explored the role the U.S. plays in global manufacturing and how Mexico complements the U.S. through the maquiladora industry. Another research conference explored the emerging and growing importance of the nanotechnology industry.

Staff economists published numerous research papers in major policy journals, including the *American Economic Review: Papers and Proceedings*, *Economic Journal* and *Journal of Monetary Economics*. In addition, economists published a range of articles in *Economic Letter* and *Southwest Economy* on policy-related topics, including the housing and financial crisis, the role of the Fed’s term auction facility, the impact of too-big-to-fail banks on monetary policy, the Texas Manufacturing Outlook Survey and the macroeconomics of energy.

The Dallas Fed’s Globalization and Monetary Policy Institute continues to contribute valuable insight into the effects of global developments on America’s economy and monetary policy. The institute circulated 27 new working papers in 2010—bringing the total number to 67—and organized two conferences. In March, a conference to mark the 10th anniversary of the euro was held jointly with the Peterson Institute for International Economics, and in September, the institute organized a conference on “Microeconomic Sources of Real Exchange Rate Behavior” jointly with the Center for International Price Research at Vanderbilt University.

The Bank’s financial industry economists advocated and implemented policies and practices for enhancing financial system stability and performance. Policy articles covered topics ranging from the macroprudential regulation of credit cycles, to loan modifications and financial recovery, to reaching the

unbanked in Mexico. The staff also built and refined analytical tools used across the Federal Reserve System for monitoring the financial condition of banks and other financial institutions, such as thrifts and credit unions.

The Dallas Fed delivered an array of economic programs and services to students and teachers throughout the district. One of the year’s highlights was “Conversation with the Chairman,” which featured Ben Bernanke interacting with educators across the nation. This event was the result of an effort led by the Dallas and Cleveland Feds’ economic education functions.

The Federal Reserve’s response to the financial crisis continued to be a primary focus for the Bank’s public programs. Program offerings were augmented by a new webcasting platform, allowing the Bank to reach a broad audience across the district and the nation effectively and efficiently. Live webcasts were produced for bankers, teachers, and economic and community development audiences.

As part of a Federal Reserve initiative to enhance communication and feedback with community bankers, the Bank established a Community Depository Institutions Advisory Council, composed of 12 representatives from financial institutions of various sizes in the district. The council will provide senior Dallas Fed officials with grassroots information on economic and banking conditions, regulatory policies and payments issues.

As consumers and communities continued to recover from the financial crisis, Bank staff collaborated with cities and civic groups across the district to mitigate home foreclosures and promote neighborhood stabilization. The Bank also launched the Dallas Fed Community Outlook Survey—a quarterly online survey designed to assess the financial condition of low- and moderate-income individuals and communities.

Throughout 2010, the Bank provided leadership and technical assistance for district partnerships and coalitions in the areas of asset building, community development finance and access to capital—organizing four conferences, 15 workshops and roundtables, eight webcasts and national conference calls, reaching thousands of participants.

The staff of the Dallas Fed and its branches strive to provide effective banking supervision and the high-quality financial services, economic research and public outreach needed to foster a sound financial system and healthy economy.