

# 2001 OPERATIONS REPORT



EXECUTIVE MESSAGE

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The year 2001 presented daunting economic challenges to the nation and to the Upper Midwest—the region that forms the Ninth District of the Federal Reserve System. We began the year with the economy slowing, unemployment growing and business investment falling. As the year unfolded the Federal Open Market Committee moved aggressively to lower short-term interest rates. The terrorist attacks of Sept. 11 and the resulting uncertainty and business restructuring dealt a further shock to the economy. But, as evidence of the resilience of the U.S. economy, even with the Sept. 11 shock, it is increasingly clear that last year’s “recession” was extremely mild and short-lived by historical standards. In fact, early 2002 data show the economy growing at a very healthy rate.

As the nation’s central bank, the Federal Reserve has a rich tradition of confronting and helping to resolve financial sector crises. On Sept. 11 and in the days and weeks that followed, the Federal Reserve did its part to mitigate the impact of the terrorist attack on one of the nation’s key financial districts. The Federal Reserve addressed liquidity needs and payments mechanism issues when financial markets were disrupted, helping to ensure that critical payments system infrastructure and financial services continued to function.

Gary Stern, President and  
James Lyon, First Vice President



As the Reserve Bank responsible for the operation of the System's automated clearing house operations (ACH), we were able to provide direct support to New York financial institutions. Within the district, we worked diligently to minimize the disruption

to check flows created by the grounding of all air traffic. We are proud of our employees' response and contribution in this time of national emergency.

For 2001, the Minneapolis Fed's key operational goals were to improve our productivity and strengthen our financial performance. We also continued to modify our operations to maintain alignment with the increasingly standardized and centralized approach the Federal Reserve is adopting to operations across the 12 Federal Reserve Banks. These changes reflect our continuing commitment to efficient use of public resources and to effective response to the changing land-

scape of banking. We made considerable strides in improving our productivity last year, improvements we will build upon going forward. We are committed to making these changes while continuing our tradition of excellence in both serving Ninth District financial institutions and fulfilling our public mandate.

From a policy perspective, the Bank has continued to promote the benefits of market discipline as a component of bank regulation and more broadly as an important consideration in public policy deliberations.

In our conversations with policymakers, bankers, students and others we often find that people are not fully aware of the diverse roles that the Federal Reserve plays in its three key functions: monetary policy, banking supervision and regulation, and financial services. To address this gap we provide in this year's annual report a primer of the roles and functions our Bank performs and how they touch the lives of people throughout our district.

We are proud of the accomplishments of the Federal Reserve Bank of Minneapolis and look forward to continuing to serve the changing needs of the Ninth District and Federal Reserve System.

Gary H. Stern  
PRESIDENT

James M. Lyon  
FIRST VICE PRESIDENT



# Payments Services

MAKING (SURE THE) ENDS MEET



YOU MAY NOT REALIZE that when you write a check to pay your electric bill, get money from a cash machine or receive notice that your paycheck has been deposited directly into your bank account that the Federal Reserve System is working behind the scenes on those transactions. Indeed, you probably don't worry about how those financial transactions are completed; you simply take them for granted. And that's just fine with the Fed.

Every day in the United States, trillions of dollars are transferred by a variety of means—whether in the form of paper or electronics—and the economy depends on the safe and sound accounting of those funds. In effect, there is an infrastructure for these methods of payment that underlies our economy, and the

Fed is a key player in ensuring that this infrastructure is always up and running.

The Fed provides three payments services: check clearing, currency and coin delivery to banks and thrift institutions, and the electronic transfer of funds. When it comes to the first two services—checks and currency—the Minneapolis Fed faces particular challenges owing to the remote locations of many financial institutions in the Ninth Federal Reserve District. The Ninth District stretches from the Rocky Mountains, across the Great Plains and to the Great Lakes, and is one of the largest Federal Reserve districts as measured by square miles, encompassing Montana, North and South Dakota, Minnesota, northwestern Wisconsin and the Upper Peninsula of Michigan. To help

ensure efficient delivery of services across the Ninth District, the Minneapolis Fed has a branch office in Helena, Mont.

The Minneapolis Fed processed about 996 million checks in 2001 worth about \$800 trillion, including more than 177 million checks worth nearly \$335 trillion at the Helena Branch. Together, the 12 Banks of the Federal Reserve System, including 45 branch and processing locations, clear about 34 percent of all the checks issued in the United States. But even commercial banks that clear their own checks still use accounts at the Federal Reserve to settle with banks at the end of the day. In other words, just like you balance your checkbook, so does the entire U.S. financial system, and the Fed is responsible for ensuring that this complex job is completed without a hitch.

That responsibility also extends to electronic payments. Almost since its inception, the Federal Reserve has transferred funds electronically between banks. But starting in the early 1970s the Fed pioneered the use of electronic payments for such transactions as payroll deposits, thus providing the efficiency and security of this technology to consumers. This economical system has grown in popularity and use; in 2001, the Fed processed \$655 trillion in elec-

tronic payments, from direct deposit of payroll and Social Security payments, to multimillion-dollar transfers between banks.

Of course, no matter how popular electronic payments become or no matter how many checks people continue to write, there will always be a need for currency in the economy. The Minneapolis Fed helps meet this need by processing currency for circulation to banks, recycling used bills that are returned to the Fed and destroying unfit currency and replacing it with new bills. In 2001, the Minneapolis Fed recirculated \$11.2 billion in cash and coin—about \$43 million a day.

There is one other responsibility that the Fed has as the nation's central bank, and that is to serve as the government's fiscal agent, managing the process of funding the country's debt. What this means to you, for example, is that the Fed provides such Treasury services as selling and redeeming Savings and Treasury Bonds. The Federal Reserve Bank of Minneapolis specializes in the retail side, working directly with individual purchasers and providing behind-the-scenes support to financial institutions and other firms that offer their customers or employees opportunities to buy bonds.

# Monetary Policy

WORKING TO ENSURE PRICE STABILITY



THE FEDERAL RESERVE'S PRIMARY RESPONSIBILITY is to chart a course for the country's monetary policy. You often hear that the Fed has lowered or raised interest rates and then are told how this will likely affect the price of goods or affect economic growth. Many consumer choices are influenced by the cost of borrowing, from whether to buy a new car or home, or whether to borrow money for home repairs or other purposes; businesses also make choices about jobs and expansion based, in part, on borrowing costs.

Clearly, the health of the U.S. economy is an important responsibility and one the Fed takes very seriously. The policymaking arm of the Fed is the Federal Open Market Committee (FOMC), consisting of the Board of Governors

and the presidents of the 12 Federal Reserve Banks. The members of the Board of Governors and the president of the New York Fed are permanent voting members of the FOMC, with four other Federal Reserve Bank presidents voting on a rotational basis. Even when they are not voting members, each president participates in policy discussions during the meetings, which occur eight times a year. This group works to establish a monetary policy focused on low and stable inflation, thus creating an economic environment that will sustain the highest possible growth and job creation.

The decisions of the FOMC are not made in a vacuum. To ensure that the committee has the best information available to make its decisions, each Federal Reserve Bank—along with the

Federal Reserve Board—engages in data-gathering and economic forecasting. For the Minneapolis Fed, this means keeping track of the Ninth District’s diverse economy through meetings with the Bank’s directors and other representatives of the Ninth District economy, regular phone calls,

e-mail updates and statistical analysis. The assembled Ninth District information is used to better understand the entire U.S. economy. Much of this analysis and data are made available to the public through the Bank’s publications and its Web site: [www.minneapolisfed.org](http://www.minneapolisfed.org).

## Banking Supervision

ENSURING SAFETY AND ACCESS

Commercial Loans	35,817	36,222	31,295	26,811
Commercial and Industrial Loans	15,465	14,321	15,564	15,036
Loans to Individuals	18,426	26,178	23,571	24,597
Agricultural Loans	20,560	19,477	20,023	18,770
Loans to Foreign Govts. and Inst.	0	0	0	0
Other Loans and Leases	98	195	365	393
Less: Unearned Income	0	0	0	0
Loans & Leases	100,366	96,393	90,818	87,682
Net of Unearned Income				
Less: Allow for Loan & lease Losses	1,518	1,425	1,349	1,289

Community Reinvestment Act

**PROVIDING THE FINANCIAL INFRA-STRUCTURE** to ensure that you have access to your money and working to make sure that interest rates are set at a level that allows the economy to grow at a sustainable pace are just two of the primary ways that the Fed impacts your financial life. The third element supports the first two:

ensuring that banks are operated in a safe, sound and fair manner, and consistent with consumer banking regulations, while meeting the convenience and needs of their communities.

The Banking Supervision Departments of the Reserve Banks, along with other federal and state regulators, ensure that banking laws



are followed, that risk is managed effectively and that banks maintain business relationships with all members of their community. Essentially, the examinations performed by the Minneapolis Fed fall into two categories, and both have a direct impact on consumers: the first deals with how banks manage their money, the second with how banks relate to their customers.

The first type of examination verifies the financial viability of the bank and includes an evaluation of its assets, capital, earnings, liquidity and sensitivity to market risk, as well as the bank's managerial policies, among many other factors. The second ensures that banks comply with all bank-related consumer legislation, including accurate communication of bank interest rate information, and fair and equal access to credit regardless of gender, race, marital status or other characteristics. For example, you may have heard of the Community Reinvestment Act (CRA), which was established by Congress with standards to assess whether a bank is meeting the credit needs of its community.

Part of the role of the Federal Reserve's examiners is to monitor and analyze broader trends in banking and determine how they impact the safety and soundness of the industry. In recent years, as banks have grown larger and as they have moved into increasingly complex businesses, the Federal Reserve's supervisory efforts have become even more important.

**BUT CHANGE IS NOTHING NEW IN BANKING**, and the Federal Reserve is accustomed to such change, whether it be in financial services products, monetary policy research or supervision of the financial system. Through it all, the Federal Reserve System's mission remains the same: to maintain a stable price environment to better generate economic growth and job creation, and to ensure the safety and soundness of the nation's financial system. That way, when you write your check or use a cash machine you can take the Fed for granted—and feel good about it.