Federal Reserve Bank of Dallas

2008 Annual Report

The Financial Crisis: Connecting the Dots

Contents

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-

These are complex, trying times. Our economy faces a tough road.

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 economic 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

We are the nation's central bank, and we are duty bound to apply every tool we can to get the economy back on track.

The Financial Crisis: Connecting the Dots

In 2008, you didn't have to understand the complexities of the financial system to be concerned about its health.

America held its collective breath as a general sense of unease took hold, fed by nonstop news of financial turmoil, falling home prices, a stock market in free fall and a widening global slowdown. Month after month, consumer confidence slid to record lows.

For many Americans, the situation was wrenchingly personal—foreclosed homes, lost jobs, shrinking college funds, evaporating retirement savings. The National Bureau of Economic Research's early-December announcement that the U.S. had been in recession for a year only confirmed what they had long known.

Texas, which constitutes the largest piece of the Eleventh District, escaped the downturn for much of 2008 and continued to expand. But in the second half, conditions deteriorated rapidly, the result of the deepening global crisis and sharp drops in energy prices, high-tech activity and exports. While the state's losses were relatively moderate, rising unemployment and a weakening housing market proved Texas was not immune to the financial crisis. Falling oil and gas prices adversely impacted Louisiana and New Mexico, parts of which fall in the district.

Richard Fisher, president and CEO of the Federal Reserve Bank of Dallas, spoke and wrote extensively on the financial crisis in 2008, connecting the dots for his audiences. He discussed the factors that contributed to the crisis and the credit crunch. He explained the Federal Reserve's response to the situation and the need for regulatory reform. He also reminded his audiences of Americans' inherent resilience.

Some Causes of the Crisis

Speculation on Housing

The roots of the current crisis [are] like those of earlier bubbles. They originated in the seductive power of price escalation . . . and the egocentricity of the present, which led some to believe we had entered a new era. We either didn't notice this elaborate conceit or failed to deal with it.

But it was there. Many coastal areas of the U.S. were beginning to see 20 to 30 percent year-over-year increases in house prices, some even as high as 30 to 40 percent. Subprime mortgage borrowing, or lending to less credit-worthy individuals by lenders who were eager to finance a "sure thing," exploded.

April 9 speech

To a great extent, the bubble in housing was a classic case of the bigger-fool theory and efficient-market theory run amok.

April 9 speech

Market Inefficiency

Judgment and experience, including our own vivid experience here in Texas in the 1980s, teach us that in booms and bubbles, prices overshoot and during busts, they overcorrect.

April 9 speech

The markets in commodities, like those of stocks and bonds, are manic-depressive mechanisms and overshoot on the upside as well as on the downside. One could reasonably deduce from recent price reversals in oil and food prices that they overshot on the upside and that their price run-up was a one-off development. If you subscribe to this argument, you envision a process not unlike that of a python digesting dinner: It visibly moves through the system, creating some moments of discomfort—in this case, a temporary inflationary bulge—but is processed in reasonable time and done with.

August 19 speech

America held its collective breath as a general sense of unease took hold, fed by nonstop news of financial turmoil, falling home prices, a stock market in free fall and a widening global slowdown.

Most everyone agrees that risk appetites—fed by innovations in ways to measure, calibrate, repackage and sell risk—became excessive during the boom years.

I am firm in my view that financial markets remain prone to risk overshooting, and we see an elevated level of risk aversion when the inevitable correction comes. That is what happened in the summer of 2007, when willingness to take on risk seemed to dry up overnight, leading to significant liquidity squeezes and funding pressures at banks and other creditors.

November/December Southwest Economy

Rapid Innovation: Too Far Too Fast

We saw a wave of innovative mortgage products during the housing boom. Indeed, there would have been no other way for many borrowers to have procured financing without these new mortgage products.

These innovations in financing took two forms. First, credit-scoring models enabled lenders to better sort and price mortgages made to nonprime borrowers. The second set of innovations allowed these loans to be funded and sold to a new class of investors.

While traditional mortgages had long been securitized and sold through government-sponsored enterprises such as Fannie Mae and Freddie Mac, the securitization market ushered in new players from the private sector that would hold nonprime mortgages that could not meet the standards of Fannie and Freddie and that banks would generally not hold in portfolio.

. . . New and complex securities sliced and diced risk into different tranches. It was thought that the collateralized debt obligations and collateralized loan obligations could be hedged with credit default swaps to make them seem almost risk free.

April 9 speech

With the aid of technology and computational power that can assess probabilities at lightning speeds, the menu of risk instruments expanded dramatically. Financial intermediaries began offering exotic products to satisfy almost any risk taker's needs anywhere in the world, at any time.

April 9 speech

Most everyone agrees that risk appetites—fed by innovations in ways to measure, calibrate, repackage and sell risk—became excessive during the boom years. These innovations—otherwise known as securitization and the originate-to-distribute model of banking—are by no means new, but they certainly took on some new and uncharted dimensions in this decade.

Structured credit products became all the rage and gave us an alphabet soup of new acronyms like ABS, CDS, CLO and CMO. These new instruments allowed financiers to slice and dice the risk associated with mortgages and other credits, presumably reducing risk by spreading it around to those most willing to hold it. In retrospect, they compounded risk to the financial system.

November/December Southwest Economy

Overreliance on Models

The excesses in subprime lending in the United States were fed by an excessive amount of faith in technically sophisticated approaches to risk management and a misguided belief that mathematical models could price securitized assets, including securities based on mortgages, accurately. These valuation methodologies were so technical and mathematically sophisticated that their utter complexity lulled many people into a false sense of security.

In the end, complexity proved hopelessly inadequate as an all-encompassing measure of risk, despite its frequent advertisement as such. The risk models employed turned out to be merely formulaic descriptions of the past and created an illusion of precision. Such approaches could not and cannot replace the forward-looking judgment of a seasoned professional.

April 9 speech

New and sophisticated statistical models, made possible in part by advances in computer technology, assured us that all this new risk was being properly and accurately measured. And the ratings agencies further comforted us by giving many of the new securities their seal of approval—often, their highest, triple-A seal.

November/December Southwest Economy

The most striking and truly new part of the recent financial cycle was the mistake of replacing sound judgment with the mathematization of risk. An immense array of statistical gadgetry wielded by a new generation of quantitative minds . . . managed to squelch the wisdom of longtime bankers and seasoned financiers. Our problems are not new. But they have been magnified by a certain type of hubris that viewed statistical modeling as infallible.

November/December Southwest Economy

Market Interconnectedness

One of the issues at the heart of this particular episode is the interconnected nature of financial market participants. Unfortunately, while everyone knows that interconnectedness is important, it is difficult to tell exactly how and to what extent things are woven together—sort of like the "butterfly effect." A butterfly's wings disturb the air around it, setting off a chain of events that ends with a major storm in some remote part of the world. A small catalyst results in large—and sometimes catastrophic—consequences.

The crisis spreading through the global financial system can be thought of as a butterfly effect. Take credit default swaps, for example. These instruments and the institutions they connect are quite complex. In principle, though, these swaps provide a fairly simple service: Properly utilized, they are a form of insurance against the risk of the default of an underlying asset.

Our problems are not new. But they have been magnified by a certain type of hubris that viewed statistical modeling as infallible.

While that might sound appealing, the value of the insurance is only as good as the person providing the guarantee. When that individual's viability is called into question—when heightened uncertainty enters the mix—the whole network will suffer the consequences. It all comes down to what we say all the time, what is really common sense but is nevertheless often ignored: Know your counterparty.

November/December Southwest Economy

> What began as isolated pockets of trouble in the U.S. housing market soon spread to global markets in mortgage-backed securities, where many of the exotic home mortgage products were gobbled up.

Monetary Policy

Hunger for the new risk products was stimulated by a lengthy period of abnormally low interest rates and the normal human instinct to look for ever-higher yields when the returns on orthodox financial instruments, like U.S. Treasuries, municipal bonds or bank CDs, become ho-hum.

April 9 speech

Despite all the advances in economic theory and risk management techniques, when the economy and financial markets get too headstrong and frisky, they are hard to rein in.

Economists like to say that one of the purposes of a central bank like the Federal Reserve is to tame the animal spirits of the economy, employing monetary policy to keep the nation on the path to sustainable, noninflationary growth. One of the greatest of Federal Reserve chairmen, William McChesney Martin, once said that the job of the Fed is to "take away the punch bowl just as the party gets going." As I speak to you today, we are in the midst of experiencing the consequences of the failure to take away the punch bowl and of allowing the exuberant animal spirits of our economy to get out of hand. We must never allow this to happen again.

November 4 speech

Insufficient Constraints

Some financial institutions attempted to reduce required capital and shield activity from regulators' view. Poor judgment compounded by capital arbitrage and accounting gimmickry has been the cause of innumerable financial crises throughout history.

November/December Southwest Economy

There are plenty of armchair quarterbacks who now claim to have seen all this coming. Indeed, we must acknowledge that many in the financial community, including at the Federal Reserve, failed to either detect or act upon the telltale signs of financial system excess.

December 18 speech

The Credit Crunch

What began as isolated pockets of trouble in the U.S. housing market soon spread to global markets in mortgage-backed securities, where many of the exotic home mortgage products were gobbled up. Soon it became obvious that financial market participants were gagging on the many types of structured credit products—not just those backed by mortgages—they were being served.

As we approached the summer of 2007, this gag reflex reached a pinnacle. The larger banks found it difficult, if not impossible, to sell to others many types of loans, and the interbank lending market experienced intense liquidity pressures as banks became fearful of lending to each other for longer than overnight.

April 9 speech

If you were a yachtsman, you would say that we sailed the economy along in a following sea for a long time; now we are navigating force 10 seas. Everyone is battening down the hatches and reefing in their sails. Worldwide, creditors are tightening their standards and consumers and businesses are correcting their courses.

August 19 speech

Since the beginning of the year, I have been worried about the efficacy of reducing the fed funds rate, given the problems of liquidity and capital constraints afflicting the financial system. As I see it, the seizures and convulsions we have experienced in the debt and equity markets have been the consequences of a sustained orgy of excess and reckless behavior, not a too-tight monetary policy.

There is no nice way to say this, so I will be blunt: Our credit markets had contracted a hideous STD—a securitization transmitted disease—for which lowering the funds rate to negative real levels seemed to me to be not only an ineffective treatment but a palliative and maybe even a stimulus that would only encourage further mischief.

September 25 speech

The problem that has been ailing capital markets and, by extension, the economy has not been the fed funds rate. It has been and remains risk aversion and uncertainty about counterparty risk and capital adequacy.

September 25 speech

With uncertainty in full fever, cash is hoarded, counterparties are viewed with suspicion, and no business appears worthy of financing. The economy, starved of the lifeblood of capital, staggers and begins to weaken.

It is the Fed's duty as lender of last resort to lead the way to restoring the efficacy of the financial system.

Just as irrational exuberance causes economies to overshoot on the upside, behavioral adaptations driven by uncertainty and fear and credit constriction exacerbate the downside.
November 4 speech

Bankers and other creditors, having noted that the horse long ago bolted from the confines of prudence, are now shutting the proverbial barn doors. The credit intermediation process has become dysfunctional. Once ubiquitous, credit has become quite expensive—if you can get it.
December 18 speech

Uncertainty is the ultimate enemy of decisionmaking, forcing an otherwise robust credit system into a defensive crouch. . . . With uncertainty in full fever, cash is hoarded, counterparties are viewed with suspicion, and no business appears worthy of financing. The economy, starved of the lifeblood of capital, staggers and begins to weaken.
December 18 speech

The Fed's Response

Now we are faced with the consequences of a process that lawyers would call the discovery phase: As big banks and other financial agents confess their acts of fiduciary omission and excesses of commission, credit markets have effectively deleveraged important segments of the economy, slowing growth suddenly and precipitously. Instead of taking the punch bowl away, the Federal Reserve is now faced with the task of replenishing the punch.
February 7 speech

Think of the fed funds rate as a monetary spigot, and the Fed's goal is keeping the lawn of the economy green and healthy. If we turn the spigot up too forcefully, we will flood and kill the grass with inflation. If we provide too little, the lawn turns brown, starved for money.

To get the money from the spigot to the lawn requires a working system of pipes and sprinkler heads. The "shadow banking system," however, looks like a Rube Goldberg device designed by a hydrologist on acid, with pipes and conduits that lead every which way and not always toward the goal of sustainable economic growth. Moreover, the system of pipes and outlets is clogged with the muck and residue of a prolonged and frenetic period of unrestrained growth and abuse.

Until the confusion and the debris are cleared away, financial intermediaries will be reluctant to book new loans or incur additional risk. This retards the impact of additional monetary accommodation.

Thus, even as we have been cutting the fed funds rate—even as we have been opening the monetary spigot—interest rates for private-sector borrowers have not fallen correspondingly, and rates for some borrowers have increased. The grass is turning brown.

To address this problem, we have created some new facilities that should provide a liquidity bridge over the currently dysfunctional system while the marketplace and regulators—ourselves included—go about restoring the system's plumbing.

April 9 speech

It is the Fed's duty as lender of last resort to lead the way to restoring the efficacy of the financial system.

April 9 speech

You can see the size and breadth of the Fed's efforts to counter the collapse of the credit mechanism in our balance sheet. At the beginning of this year, the assets on the books of the Fed totaled $926 billion. Today, our assets exceed $1.9 trillion. . . .

The composition of our holdings has shifted considerably. Previously, almost 100 percent of our holdings were in the form of core holdings of U.S. Treasuries; today, less than a third are. The remainder consists of claims deriving from our new facilities.

November 4 speech

You will note that the emphasis of our activities has been on expanding the asset side of our balance sheet—the left side, which registers the securities we hold, the loans we make, the value of our swap lines and the credit facilities we have created. We feel this is the correct side to emphasize. The right side of our balance sheet records our holdings of banks' balances; Federal Reserve notes, or cash (currently over $830 billion); and U.S. Treasury balances.

December 18 speech

In times of crisis, many feel that the best position to take is somewhere between cash and fetal. But it does the economy no good when creditors curl up in a ball and clutch their money. This only reinforces the widening of spreads between risk-free holdings and all-important private-sector yields, further braking commercial activity, whose lifeblood is access to affordable credit.

We believe that emphasizing the asset side of the balance sheet will do more to improve the functioning of credit markets and restore the flow of finance to the private sector. In the parlance of central banking finance, I consider this a more qualitative approach to quantitative easing.

December 18 speech

We must not forget that prudent risk taking is the lifeblood of capitalism, especially the American form of capitalism.

We have been here before and we have overcome our problems. We are a nation of risk takers. Often we confront storms of our own making. We falter. We get blown off course. We lose some of our ships. But we never give up.

Revamping the Financial System

Need for New Regulatory Structure

Our country is the most advanced in the world. We have been at the forefront of innovation and structural advancement in biology and science and technology, in culture and management and commerce and countless other fields. We must continually strive to be at the forefront of figuring out how to corral the "little dogies" that are the financial markets' animal spirits in a way that encourages them to work their magic of underwriting prosperity and yet discourages their straying from the pasture. This is not an easy thing to do. But if we want to preserve our way of life, and do what is right for . . . future generations of Americans, we must get it done.

September 25 speech

In the near future, we will have to consider more fundamental reform of our financial infrastructure. In addition to the usual calls for greater transparency and accountability, policymakers would do well to establish and follow several main principles of reform.

For example, they should seek to avoid situations that privatize profits and socialize losses. Institutions and investors that are free to make money in the financial system should also be free to lose it. That is the only way to maintain some degree of market discipline in the system. In addition, policymakers should continue to stress the importance of capital adequacy at financial institutions. To be blunt, leverage got out of hand. It certainly is not an easy job, but supervision and regulation need to make capital levels reflect the risks taken by an institution.

November/December Southwest Economy

Steering Clear of Overregulation

We must not forget that prudent risk taking is the lifeblood of capitalism, especially the American form of capitalism, where we are constantly replacing the old with the new and the familiar with the new and the innovative. If we had not taken risks, we would never have created from scratch the $14 trillion U.S. economy.

April 9 speech

Regulations by themselves cannot replace good judgment by individual investors or bankers or financiers, and certainly by policymakers. Policymakers need to remain vigilant in seeking the right balance between prudent and indiscriminate risk taking. But the elimination of risk—and the consequences of incurring risk—can never be the goal of any policymaker in a capitalist system. In building the bridge to restore financial order and efficiency, my primary interest is to do the minimum necessary to get the job done. And no more. In so doing, my hope is that we restore the long-term faith of the millions of risk takers who make our economy so mighty.

April 9 speech

American Resilience

Even in the egocentric present, when gloomy analysts lament "unprecedented problems," we must never lose faith in the economic machine that has propelled the U.S. economy to unprecedented prosperity. You need look no further than to what is happening in our own state for proof of our nation's inherent resiliency. All I ask of you as San Antonians and as Texans is that you continue to serve as the exemplar of what can be accomplished by properly managing risk and turning "unprecedented problems" into unrivaled opportunities, as Americans have done time and time again.
April 9 speech

If financial markets are prone to overshooting and undershooting, we may find ourselves wondering what we have to be optimistic about. In the fearful and uncertain aftermath of bursting bubbles, we too soon forget the euphoric booms that fund our purchases, expand our businesses and generally afford us the rich opportunities we enjoy in this country.

We should always be mindful that this dynamic system—or, as the economist Joseph Schumpeter called it, this "creative gale of destruction"—has given us the highest standard of living in recorded history. Something must be right about it.
November/December Southwest Economy

We have been here before and we have overcome our problems. We are a nation of risk takers. Often we confront storms of our own making. We falter. We get blown off course. We lose some of our ships. But we never give up. We are a resilient people. We always come roaring back. . . . You don't have to be irrationally exuberant to know that is what makes America unique. And always will.
November 4 speech

Management and Boards

Senior Management

Richard W. Fisher
President and
Chief Executive Officer

Helen E. Holcomb
First Vice President and
Chief Operating Officer

Harvey Rosenblum
Executive Vice President and
Director of Research

Meredith N. Black
Senior Vice President

W. Michael Cox
Senior Vice President
and Chief Economist

J. Tyrone Gholson
Senior Vice President

Robert W. Gilmer
Vice President in Charge,
El Paso Branch

Robert D. Hankins
Senior Vice President

Blake Hastings
Vice President in Charge,
San Antonio Branch

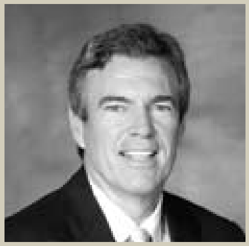
Joanna O. Kolson
Senior Vice President

Robert Smith III
Senior Vice President in Charge,
Houston Branch

Millard Sweatt
Senior Vice President,
General Counsel and Secretary

Boards of Directors

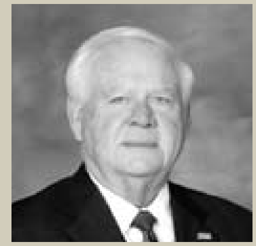
Dallas



James T. Hackett
(Chairman)
Chairman, President and CEO, Anadarko Petroleum Corp.

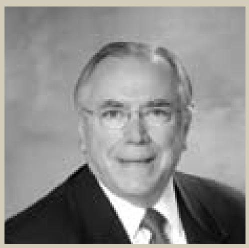
Herbert D. Kelleher
(Deputy Chairman)
Founder and Chairman Emeritus, Southwest Airlines Co.

James B. Bexley
Professor of Finance, Sam Houston State University



Pete Cook
President and CEO, First National Bank in Alamogordo

Robert A. Estrada
Chairman, Estrada Hinojosa and Co.



Richard W. Evans Jr.
Chairman and CEO, Cullen/Frost Bankers Inc.

Margaret H. Jordan
President and CEO, Dallas Medical Resource

Joe Kim King
CEO, Brady National Bank

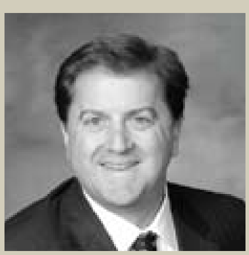
Myron E. Ullman III
Chairman, J.C. Penney Co. Inc.

El Paso

Ron C. Helm
(Chairman)
Owner, Helm Land and Cattle Co.

Cindy J. Ramos-Davidson
(Chairman Pro Tem)
President and CEO, El Paso Hispanic Chamber of Commerce

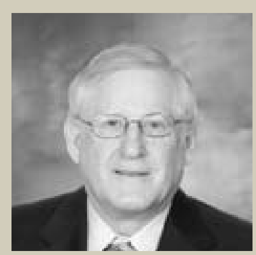
Laura M. Conniff
Qualifying Broker, Mathers Realty Inc.



D. Kirk Edwards
President, MacLondon Royalty Co.

Fred Loya
Chairman, Fred Loya Insurance Agency LP

Larry L. Patton
President and CEO, Bank of the West



Gerald J. Rubin
Chairman, President and CEO, Helen of Troy Ltd.

Houston

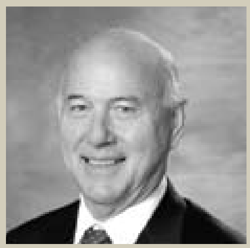
Nancy T. Chang
(Chairman)
President,
Apex Enterprises Inc.

Douglas L. Foshee
(Chairman Pro Tem)
President and CEO,
El Paso Corp.

Timothy N. Bryan
Chairman,
The Bank and Trust,
Bryan/College Station

Lupe Fraga
Chairman and CEO,
Tejas Office Products Inc.

Jodie L. Jiles
Managing Director,
RBC Capital Markets



S. Reed Morian
Chairman, CEO and President,
DX Service Company Inc.

Peter G. Traber
President Emeritus,
Baylor College of Medicine

San Antonio

J. Dan Bates
(Chairman)
President, Southwest Research Institute

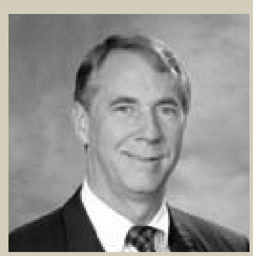
Ricardo Romo
(Chairman Pro Tem)
President, University of Texas at San Antonio

Matt F. Gorges
Chairman and CEO,
U.S. Packers and Processors

Elizabeth Chu Richter
Chairman and CEO,
Richter Architects

G.P. Singh
President and CEO,
Gur Parsaad Properties Ltd.

Guillermo F. Trevino
President,
Southern Distributing



Steven R. Vandegrift
Founder and President,
SRV Holdings

Officers
Federal Reserve Bank of Dallas

Dallas

Richard W. Fisher
President and CEO

Helen E. Holcomb
First Vice President and COO

Harvey Rosenblum
Executive Vice President and Director of Research

Meredith N. Black
Senior Vice President

W. Michael Cox
Senior Vice President and Chief Economist

J. Tyrone Gholson
Senior Vice President

Robert D. Hankins
Senior Vice President

Joanna O. Kolson
Senior Vice President

Millard Sweatt
Senior Vice President, General Counsel and Secretary

Earl Anderson
Vice President

Gloria V. Brown
Vice President

John V. Duca
Vice President and Senior Policy Advisor

Robert G. Feil
Vice President

KaSandra Goulding
Vice President

Diane M. Holloway
Vice President

Donald L. Jackson
Vice President

Kathy K. Johnsrud
Vice President

Sherry M. Kidd
Vice President

Evan F. Koenig
Vice President and Senior Policy Advisor

Kenneth V. McKee
Vice President and General Auditor

Harvey R. Mitchell III
Vice President

William C. Morse Jr.
Vice President

Sharon A. Sweeney
Vice President, Associate General Counsel, Ethics Officer and Associate Secretary

W. Arthur Tribble
Vice President and Associate Secretary

Robert L. Triplett III
Vice President

E. Ann Worthy
Vice President

Mark A. Wynne
Vice President and Director, Globalization and Monetary Policy Institute

Mine K. Yücel
Vice President and Senior Economist

Tommy E. Alsbrooks
Assistant Vice President

Stephan D. Booker
Assistant Vice President

Jeffery W. Gunther
Assistant Vice President

Alfreda B. Norman
Assistant Vice President

Dean A. Pankonien
Assistant Vice President

John R. Phillips
Assistant Vice President

Lawrence G. Rex
Assistant Vice President

Margaret C. Schieffer
Assistant Vice President

Victor A. Schreck
Assistant Vice President

Gayle Teague
Assistant Vice President

Michael N. Turner
Assistant Vice President

Marion E. White
Assistant Vice President

Glenda Balfantz
Audit Officer

B. Joe Betsill Jr.
Operations Officer

V. Lynn Black
Relationship Management Officer

Claude H. Davis
Accounting Officer

Paul T. Elzner
Supervision, Reserves and Credit Officer

Karen M. Gist
Information Technology Officer

D. Kay Gribbin
Administrative Officer

Richard J. Mase Jr.
Operations Officer

Dana S. Merritt
Human Resources Officer

Robert R. Moore
Research Officer

Allen E. Qualman
Information Technology Officer

Kenneth J. Robinson
Research Officer

William W. Shaffer Jr.
Information Technology Officer

Jay Sudderth
Relationship Management Officer

El Paso

Robert W. Gilmer
Vice President in Charge

Javier R. Jimenez
Assistant Vice President

Houston

Robert Smith III
Senior Vice President in Charge

René G. Gonzales
Vice President

Daron D. Peschel
Vice President

Donald N. Bowers II
Assistant Vice President

Randy L. Steinley
Assistant Vice President

Michelle Treviño-Aguilar
Administrative Officer

San Antonio

Blake Hastings
Vice President in Charge

D. Karen Diaz
Assistant Vice President

Eleventh District Advisory Council

Jerred G. Blanchard Jr.
Principal
Ernst and Young LLP
Houston

Crawford Brock
Owner
Stanley Korshak
Dallas

François L. Chandou
President
La Cave Warehouse
Dallas

Jason M. King
Manager and Owner
J. King Family Ranch LLC
Chappell Hill, Texas

Frank Mihalopoulos
President
Corinth Properties
Dallas

Deborah Lawrence Rogers
Owner
Deborah's Farmstead
Fort Worth

Gregory J. Rohan
President
Heritage Galleries & Auctioneers Inc.
Dallas

Debby A. Weber
Sole Proprietor
Weber Design Associates
President
Hilltop Remodeling Inc.
Dallas

Federal Advisory Council Member

James D. Goudge
Chairman and CEO
Broadway National Bank
San Antonio

As of December 31, 2008

Financials

Management's Report on Internal Control Over Financial Reporting

April 2, 2009

To the Board of Directors of the
Federal Reserve Bank of Dallas:

The management of the Federal Reserve Bank of Dallas ("FRBD") is responsible for the preparation and fair presentation of the Statement of Financial Condition, Statements of Income and Comprehensive Income, and Statement of Changes in Capital as of December 31, 2008 (the "Financial Statements"). The Financial Statements have been prepared in conformity with the accounting principles, policies, and practices established by the Board of Governors of the Federal Reserve System and as set forth in the *Financial Accounting Manual for the Federal Reserve Banks* ("Manual"), and as such, include amounts, some of which are based on management judgments and estimates. To our knowledge, the Financial Statements are, in all material respects, fairly presented in conformity with the accounting principles, policies, and practices documented in the Manual and include all disclosures necessary for such fair presentation.

The management of the FRBD is responsible for establishing and maintaining effective internal control over financial reporting as it relates to the Financial Statements. Such internal control is designed to provide reasonable assurance to management and to the Board of Directors regarding the preparation of the Financial Statements in accordance with the Manual. Internal control contains self-monitoring mechanisms, including, but not limited to, divisions of responsibility and a code of conduct. Once identified, any material deficiencies in internal control are reported to management and appropriate corrective measures are implemented.

Even effective internal control, no matter how well designed, has inherent limitations, including the possibility of human error, and therefore can provide only reasonable assurance with respect to the preparation of reliable financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The management of the FRBD assessed its internal control over financial reporting reflected in the Financial Statements, based upon the criteria established in the *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, we believe that the FRBD maintained effective internal control over financial reporting as it relates to the Financial Statements.

Federal Reserve Bank of Dallas

Richard Fisher — President

Helen E. Holcomb — First Vice President

Meredith Black — Chief Financial Officer

Report of Independent Auditors

To the Board of Governors of the Federal
Reserve System and the Board of Directors
of the Federal Reserve Bank of Dallas:

We have audited the accompanying statements of condition of the Federal Reserve Bank of Dallas ("FRB Dallas") as of December 31, 2008 and 2007 and the related statements of income and comprehensive income and changes in capital for the years then ended, which have been prepared in conformity with accounting principles established by the Board of Governors of the Federal Reserve System. We also have audited the internal control over financial reporting of FRB Dallas as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. FRB Dallas's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on these financial statements and an opinion on FRB Dallas's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

FRB Dallas's internal control over financial reporting is a process designed by, or under the supervision of, FRB Dallas's principal executive and principal financial officers, or persons performing similar functions, and effected by FRB Dallas's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the accounting principles established by the Board of Governors of the Federal Reserve System. FRB Dallas's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of FRB Dallas; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the accounting principles established by the Board of Governors of the Federal Reserve System, and that receipts and expenditures of FRB Dallas are being made only in accordance with authorizations of management and directors of FRB Dallas; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of FRB Dallas's assets that could have a material effect on the financial statements.

Report of Independent Auditors (continued)

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Note 4 to the financial statements, FRB Dallas has prepared these financial statements in conformity with accounting principles established by the Board of Governors of the Federal Reserve System, as set forth in the *Financial Accounting Manual for Federal Reserve Banks*, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The effects on such financial statements of the differences between the accounting principles established by the Board of Governors of the Federal Reserve System and accounting principles generally accepted in the United States of America are also described in Note 4.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FRB Dallas as of December 31, 2008 and 2007, and the results of its operations for the years then ended, on the basis of accounting described in Note 4. Also, in our opinion, FRB Dallas maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Deloitte & Touche LLP

April 2, 2009

Statements of Condition (in millions)

	December 31, 2008	December 31, 2007
ASSETS		
Gold certificates	$ 636	$ 613
Special drawing rights certificates	98	98
Coin	180	130
Items in process of collection	152	126
Loans to depository institutions	5,027	1,400
System Open Market Account:		
Securities purchased under agreements to resell	3,318	2,043
U.S. government, federal agency, and government-sponsored-enterprise securities, net	20,831	32,760
Investments denominated in foreign currencies	489	317
Central bank liquidity swaps	10,908	336
Interdistrict settlement account	11,155	—
Bank premises and equipment, net	278	287
Accrued interest receivable	261	281
Other assets	38	28
Total assets	**$ 53,371**	**$ 38,419**
LIABILITIES AND CAPITAL		
Liabilities		
Federal Reserve notes outstanding, net	$ 35,121	$ 32,411
System Open Market Account:		
Securities sold under agreements to repurchase	3,665	1,933
Deposits:		
Depository institutions	13,533	635
Other deposits	1	1
Deferred credit items	296	129
Interest on Federal Reserve notes due to U.S. Treasury	103	59
Interdistrict settlement account	—	2,425
Accrued benefit costs	92	86
Other liabilities	18	14
Total liabilities	**$ 52,829**	**$ 37,693**
Capital		
Capital paid-in	271	363
Surplus (including accumulated other comprehensive loss of $15 million at December 31, 2008 and 2007)	271	363
Total capital	**542**	**726**
Total liabilities and capital	**$ 53,371**	**$ 38,419**

The accompanying notes are an integral part of these financial statements.

Statements of Income and Comprehensive Income (in millions)

	For the Years Ended December 31, 2008	For the Years Ended December 31, 2007
INTEREST INCOME		
Loans to depository institutions	$ 57	$ 2
System Open Market Account:		
Securities purchased under agreements to resell	80	63
U.S. government, federal agency, and government-sponsored-enterprise securities	$ 1,086	$ 1,711
Investments denominated in foreign currencies	12	8
Central bank liquidity swaps	70	—
Total interest income	**1,305**	**1,784**
INTEREST EXPENSE		
System Open Market Account:		
Securities sold under agreements to repurchase	31	75
Depository institutions deposits	9	—
Total interest expense	40	75
Net interest income	**1,265**	**1,709**
NON-INTEREST INCOME		
System Open Market Account:		
U.S. government, federal agency, and government-sponsored-enterprise securities gains, net	162	—
Foreign currency gains, net	22	27
Compensation received for services provided	43	47
Reimbursable services to government agencies	15	15
Other income	35	5
Total non-interest income	**277**	**94**
OPERATING EXPENSES		
Salaries and other benefits	119	117
Occupancy expense	25	22
Equipment expense	13	12
Assessments by the Board of Governors	25	35
Other expenses	43	51
Total operating expenses	**225**	**237**
Net income prior to distribution	**1,317**	**1,566**
Change in funded status of benefit plans	—	13
Comprehensive income prior to distribution	**$ 1,317**	**$ 1,579**
DISTRIBUTION OF COMPREHENSIVE INCOME		
Dividends paid to member banks	$ 17	$ 17
Transferred (from) to surplus and change in accumulated other comprehensive loss	(92)	151
Payments to U.S. Treasury as interest on Federal Reserve notes	1,392	1,411
Total distribution	**$ 1,317**	**$ 1,579**

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Capital for the Years Ended December 31, 2008, and December 31, 2007 (in millions, except share data)

		Surplus			
	Capital Paid-In	Net Income Retained	Accumulated Other Comprehensive Loss	Total Surplus	Total Capital
BALANCE AT JANUARY 1, 2007 (4.2 million shares)	$ 212	$ 240	$ (28)	$ 212	$ 424
Net change in capital stock issued (3.1 million shares)	151	—	—	—	151
Transferred to surplus and change in accumulated other comprehensive loss	—	138	13	151	151
BALANCE AT DECEMBER 31, 2007 (7.3 million shares)	$ 363	$ 378	$ (15)	$ 363	$ 726
Net change in capital stock redeemed (1.9 million shares)	(92)	—	—	—	(92)
Transferred from surplus and change in accumulated other comprehensive loss	—	(92)	—	(92)	(92)
BALANCE AT DECEMBER 31, 2008 (5.4 million shares)	**$ 271**	**$ 286**	**$ (15)**	**$ 271**	**$ 542**

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

1. STRUCTURE

The Federal Reserve Bank of Dallas ("Bank") is part of the Federal Reserve System ("System") and is one of the 12 Reserve Banks ("Reserve Banks") created by Congress under the Federal Reserve Act of 1913 ("Federal Reserve Act"), which established the central bank of the United States. The Reserve Banks are chartered by the federal government and possess a unique set of governmental, corporate, and central bank characteristics. The Bank serves the Eleventh Federal Reserve District, which includes Texas and portions of Louisiana and New Mexico.

In accordance with the Federal Reserve Act, supervision and control of the Bank is exercised by a board of directors. The Federal Reserve Act specifies the composition of the board of directors for each of the Reserve Banks. Each board is composed of nine members serving three-year terms: three directors, including those designated as chairman and deputy chairman, are appointed by the Board of Governors of the Federal Reserve System ("Board of Governors") to represent the public, and six directors are elected by member banks. Banks that are members of the System include all national banks and any state-chartered banks that apply and are approved for membership in the System. Member banks are divided into three classes according to size. Member banks in each class elect one director representing member banks and one representing the public. In any election of directors, each member bank receives one vote, regardless of the number of shares of Reserve Bank stock it holds.

The System also consists, in part, of the Board of Governors and the Federal Open Market Committee ("FOMC"). The Board of Governors, an independent federal agency, is charged by the Federal Reserve Act with a number of specific duties, including general supervision over the Reserve Banks. The FOMC is composed of members of the Board of Governors, the president of the Federal Reserve Bank of New York ("FRBNY"), and on a rotating basis four other Reserve Bank presidents.

2. OPERATIONS AND SERVICES

The Reserve Banks perform a variety of services and operations. Functions include participation in formulating and conducting monetary policy; participation in the payments system, including large-dollar transfers of funds, automated clearinghouse ("ACH") operations, and check collection; distribution of coin and currency; performance of fiscal agency functions for the U.S. Treasury, certain federal agencies, and other entities; serving as the federal government's bank; provision of short-term loans to depository institutions; provision of loans to individuals, partnerships, and corporations in unusual and exigent circumstances; service to the consumer and the community by providing educational materials and information regarding consumer laws; and supervision of bank holding companies, state member banks, and U.S. offices of foreign banking organizations. Certain services are provided to foreign and international monetary authorities, primarily by the FRBNY.

The FOMC, in the conduct of monetary policy, establishes policy regarding domestic open market operations, oversees these operations, and annually issues authorizations and directives to the FRBNY to execute transactions. The FRBNY is authorized and directed by the FOMC to conduct operations in domestic markets, including the direct purchase and sale of securities of the U.S. government, federal agencies, and government-sponsored enterprises ("GSEs"), the purchase of these securities under agreements to resell, the sale of these securities under agreements to repurchase, and the lending of these securities. The FRBNY executes these transactions at the direction of the FOMC and holds the resulting securities and agreements in the portfolio known as the System Open Market Account ("SOMA").

In addition to authorizing and directing operations in the domestic securities market, the FOMC authorizes and directs the FRBNY to execute operations in foreign markets in order to counter disorderly conditions in exchange markets or to meet other needs specified by the FOMC in carrying out the System's central bank responsibilities. The FRBNY is authorized by the FOMC to hold balances of, and to execute spot and forward foreign exchange and securities contracts for, 14 foreign currencies and to invest such foreign currency holdings, ensuring adequate liquidity is maintained. The FRBNY is also authorized and directed by the FOMC to maintain reciprocal currency arrangements with 14 central banks and to "warehouse" foreign currencies for the U.S. Treasury and Exchange Stabilization Fund ("ESF") through the Reserve Banks.

Although the Reserve Banks are separate legal entities, they collaborate in the delivery of certain services to achieve greater efficiency and effectiveness. This collaboration takes the form of centralized operations and product or function offices that have responsibility for the delivery of certain services on behalf of the Reserve Banks. Various operational and management models are used and are supported by service agreements between the Reserve Banks providing the service and the other Reserve Banks. In some cases, costs incurred by a Reserve Bank for services provided to other Reserve Banks are not shared; in other cases, the Reserve Banks reimburse the other Reserve Banks for services provided to them.

Major services provided by the Bank on behalf of the System and for which the costs were not reimbursed by the other Reserve Banks include Check Automation Services; National Examination Data System; Desktop Standardization Initiative; Payment Application Modernization; Lawson Central Business Administration Function; Accounts, Risk and Credit System; and *Go Direct®*.

3. RECENT FINANCIAL STABILITY ACTIVITIES

The Federal Reserve has implemented a number of programs designed to support the liquidity of financial institutions and to foster improved conditions in financial markets. These new programs, which are set forth below, have resulted in significant changes to the Bank's financial statements.

Expanded Open Market Operations and Support for Mortgage-Related Securities

The Single-Tranche Open Market Operation Program, created on March 7, 2008, allows primary dealers to initiate a series of term repurchase transactions that are expected to accumulate up to $100 billion in total. Under the provisions of the program, these transactions are conducted as 28-day term repurchase agreements for which primary dealers pledge U.S. Treasury and agency securities and agency mortgage-backed securities ("MBS") as collateral. The FRBNY can elect to increase the size of the term repurchase program if conditions warrant. The repurchase transactions are reported as "System Open Market Account: Securities purchased under agreements to resell" in the Statements of Condition.

The GSE and Agency Securities and MBS Purchase Program was announced on November 25, 2008. The primary goal of the program is to provide support to the mortgage and housing markets and to foster improved conditions in financial markets. Under this program, the FRBNY will purchase the direct obligations of housing-related GSEs and MBS backed by the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac"), and the Government National Mortgage Association ("Ginnie Mae"). Purchases of the direct obligations of housing-related GSEs began in November 2008, and purchases of GSE and agency MBS began in January 2009. There were no purchases of GSE and agency MBS during the period ended December 31, 2008. The program was initially authorized to purchase up to $100 billion in GSE direct obligations and up to $500 billion in GSE and agency MBS. In March 2009, the FOMC authorized the FRBNY to purchase up to an additional $750 billion of GSE and agency MBS and up to an additional $100 billion of GSE direct obligations.

The FRBNY holds the resulting securities and agreements in the SOMA portfolio and the activities of both programs are allocated to the other Reserve Banks.

Central Bank Liquidity Swaps

The FOMC authorized the FRBNY to establish temporary reciprocal currency swap arrangements (central bank liquidity swaps) with the European Central Bank and the Swiss National Bank on December 12, 2007, to help provide liquidity in U.S. dollars to overseas markets. Subsequently, the FOMC authorized reciprocal currency swap arrangements with additional foreign central banks. Such arrangements are now authorized with the following central banks: the Reserve Bank of Australia, the Banco Central do Brasil, the Bank of Canada, Danmarks Nationalbank, the Bank of England, the European Central Bank, the Bank of Japan, the Bank of Korea, the Banco de México, the Reserve Bank of New Zealand, Norges Bank, the Monetary Authority of Singapore, Sveriges Riksbank, and the Swiss National Bank. The activity related to the program is allocated to the other Reserve Banks. The maximum amount of borrowing permissible under the swap arrangements varies by central bank. The central bank liquidity swap arrangements are authorized through October 30, 2009.

Lending to Depository Institutions

The temporary Term Auction Facility ("TAF") program was created on December 12, 2007. The goal of the TAF is to help promote the efficient dissemination of liquidity, which is achieved by the Reserve Banks injecting term funds through a broader range of counterparties and against a broader range of collateral than open market operations. Under the TAF program, Reserve Banks auction term funds to depository institutions against a wide variety of collateral. All depository institutions that are judged to be in generally sound financial condition by their Reserve Bank and that are eligible to borrow under the primary credit program are eligible to participate in TAF auctions. All advances must be fully collateralized. The loans are reported as "Loans to depository institutions" in the Statements of Condition.

Lending to Primary Dealers

The Term Securities Lending Facility ("TSLF") was created on March 11, 2008, to promote the liquidity in the financing markets for U.S. Treasuries and other collateral. Under the TSLF, the FRBNY will lend up to an aggregate amount of $200 billion of U.S. Treasury securities to primary dealers secured for a term of 28 days. Securities loans are collateralized by a pledge of other securities, including federal agency debt, federal agency residential mortgage-backed securities, and non-agency AAA/Aaa-rated private-label residential mortgage-backed securities, and are awarded to primary dealers through a competitive single-price auction. The TSLF is authorized through October 30, 2009. The fees related to these securities lending transactions are reported as a component of "Non-interest income (loss): Other income" in the Statements of Income and Comprehensive Income.

The Term Securities Lending Facility Options Program ("TOP"), created on July 30, 2008, offers primary dealers the option to draw upon short-term, fixed-rate TSLF loans in exchange for eligible collateral. The options are awarded through a competitive auction. The program is intended to enhance the effectiveness of the TSLF by ensuring additional securities liquidity during periods of heightened collateral market pressures, such as around quarter-end dates. TOP auction dates are determined by the FRBNY, and the program authorization ends concurrently with the TSLF.

Other Lending Facilities

The Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility ("AMLF"), created on September 19, 2008, is a lending facility that provides funding to U.S. depository institutions and bank holding companies to finance the purchase of high-quality asset-backed commercial paper ("ABCP") from money market mutual funds under certain conditions. The program is intended to assist money market mutual funds that hold such paper to meet the demands for investor redemptions and to foster liquidity in the ABCP market and money markets more generally. The Federal Reserve Bank of Boston ("FRBB") administers the AMLF and is authorized to extend these loans to eligible borrowers on behalf of the other Reserve Banks. All loans extended under the AMLF are recorded as assets by the FRBB and, if the borrowing institution settles to a depository account in the Eleventh Reserve District, the funds are credited to the institution's depository account and settled between the Banks through the interdistrict settlement account. The credit risk related to the AMLF is assumed by the FRBB. The FRBB is authorized to finance the purchase of commercial paper through October 30, 2009.

4. SIGNIFICANT ACCOUNTING POLICIES

Accounting principles for entities with the unique powers and responsibilities of a nation's central bank have not been formulated by accounting standard-setting bodies. The Board of Governors has developed specialized accounting principles and practices that it considers to be appropriate for the nature and function of a central bank. These accounting principles and practices are documented in the *Financial Accounting Manual for Federal Reserve Banks* ("Financial Accounting Manual" or "FAM"), which is issued by the Board of Governors. All of the Reserve Banks are required to adopt and apply accounting policies and practices that are consistent with the FAM, and the financial statements have been prepared in accordance with the FAM.

Differences exist between the accounting principles and practices in the FAM and generally accepted accounting principles in the United States ("GAAP"), primarily due to the unique nature of the Bank's powers and responsibilities as part of the nation's central bank. The primary difference is the presentation of all SOMA securities holdings at amortized cost rather than using the fair value presentation required by GAAP. U.S. government, federal agency, and GSE securities, and investments denominated in foreign currencies comprising the SOMA are recorded at cost, on a settlement-date basis, and are adjusted for amortization of premiums or accretion of discounts on a straight-line basis. Amortized cost more appropriately reflects the Bank's securities holdings given the System's unique responsibility to conduct monetary policy. Although the application of current market prices to the securities holdings may result in values substantially above or below their carrying values, these unrealized changes in value would have no direct effect on the quantity of reserves available to the banking system or on the prospects for future Bank earnings or capital. Both the domestic and foreign components of the SOMA portfolio may involve transactions that result in gains or losses when holdings are sold prior to maturity. Decisions regarding securities and foreign currency transactions, including their purchase and sale, are motivated by monetary policy objectives rather than profit. Accordingly, fair values, earnings, and any gains or losses resulting from the sale of such securities and currencies are incidental to the open market operations and do not motivate decisions related to policy or open market activities.

In addition, the Bank has elected not to present a Statement of Cash Flows because the liquidity and cash position of the Bank are not a primary concern given the Reserve Banks' unique powers and responsibilities. Other information regarding the Bank's activities is provided in, or may be derived from, the Statements of Condition, Income and Comprehensive Income, and Changes in Capital. There are no other significant differences between the policies outlined in the FAM and GAAP.

Preparing the financial statements in conformity with the FAM requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Certain amounts relating to the prior year have been reclassified to conform to the current-year presentation. Unique accounts and significant accounting policies are explained below.

a. Gold and Special Drawing Rights Certificates

The Secretary of the U.S. Treasury is authorized to issue gold and special drawing rights ("SDR") certificates to the Reserve Banks.

Payment for the gold certificates by the Reserve Banks is made by crediting equivalent amounts in dollars into the account established for the U.S. Treasury. The gold certificates held by the Reserve Banks are required to be backed by the gold of the U.S. Treasury. The U.S. Treasury may reacquire the gold certificates at any time, and the Reserve Banks must deliver them to the U.S. Treasury. At such time, the U.S. Treasury's account is charged, and the Reserve Banks' gold certificate accounts are reduced. The value of gold for purposes of backing the gold certificates is set by law at $42 2/9 a fine troy ounce. The Board of Governors allocates the gold certificates among the Reserve Banks once a year based on the average Federal Reserve notes outstanding in each Reserve Bank.

SDR certificates are issued by the International Monetary Fund (the "Fund") to its members in proportion to each member's quota in the Fund at the time of issuance. SDR certificates serve as a supplement to international monetary reserves and may be transferred from one national monetary authority to another. Under the law providing for U.S. participation in the SDR system, the Secretary of the U.S. Treasury is authorized to issue SDR certificates somewhat like gold certificates to the Reserve Banks. When SDR certificates are issued to the Reserve Banks, equivalent amounts in dollars are credited to the account established for the U.S. Treasury, and the Reserve Banks' SDR certificate accounts are increased. The Reserve Banks are required to purchase SDR certificates, at the direction of the U.S. Treasury, for the purpose of financing SDR acquisitions or for financing exchange stabilization operations. At the time SDR transactions occur, the Board of Governors allocates SDR certificate transactions among the Reserve Banks based upon each Reserve Bank's Federal Reserve notes outstanding at the end of the preceding year. There were no SDR transactions in 2008 or 2007.

b. Loans to Depository Institutions

Loans are reported at their outstanding principal balances net of commitment fees. Interest income is recognized on an accrual basis. Loan commitment fees are generally deferred and amortized on a straight-line basis over the commitment period, which is not materially different from the interest method.

Outstanding loans are evaluated to determine whether an allowance for loan losses is required. The Bank has developed procedures for assessing the adequacy of the allowance for loan losses that reflect the assessment of credit risk considering all available information. This assessment includes monitoring information obtained from banking supervisors, borrowers, and other sources to assess the credit condition of the borrowers.

Loans are considered to be impaired when it is probable that the Bank will not receive principal and interest due in accordance with the contractual terms of the loan agreement. The amount of the impairment is the difference between the recorded amount of the loan and the amount expected to be collected, after consideration of the fair value of the collateral. Recognition of interest income is discontinued for any loans that are considered to be impaired. Cash payments made by borrowers on impaired loans are applied to principal until the balance is reduced to zero; subsequent payments are recorded as recoveries of amounts previously charged off and then to interest income.

c. Securities Purchased Under Agreements to Resell, Securities Sold Under Agreements to Repurchase, and Securities Lending

The FRBNY may engage in tri-party purchases of securities under agreements to resell ("tri-party agreements"). Tri-party agreements are conducted with two commercial custodial banks that manage the clearing and settlement of collateral. Collateral is held in excess of the contract amount. Acceptable collateral under tri-party agreements primarily includes U.S. government securities; pass-through mortgage securities of Fannie Mae, Freddie Mac, and Ginnie Mae; STRIP securities of the U.S. government; and "stripped" securities of other government agencies. The tri-party agreements are accounted for as financing transactions, and the associated interest income is accrued over the life of the agreement.

Securities sold under agreements to repurchase are accounted for as financing transactions, and the associated interest expense is recognized over the life of the transaction. These transactions are reported at their contractual amounts in the Statements of Condition, and the related accrued interest payable is reported as a component of "Other liabilities."

U.S. government securities held in the SOMA are lent to U.S. government securities dealers to facilitate the effective functioning of the domestic securities market. Overnight securities lending transactions are fully collateralized by other U.S. government securities. Term securities lending transactions are fully collateralized with investment-grade debt securities, collateral eligible for tri-party repurchase agreements arranged by the Open Market Trading Desk, or both. The collateral taken in both overnight and term securities lending transactions is in excess of the fair value of the securities loaned. The FRBNY charges the primary dealer a fee for borrowing securities, and these fees are reported as a component of "Other income."

Activity related to securities purchased under agreements to resell, securities sold under agreements to repurchase, and securities lending is allocated to each of the Reserve Banks on a percentage basis derived from an annual settlement of the interdistrict settlement account.

d. U.S. Government, Federal Agency, and Government-Sponsored Enterprise Securities; Investments Denominated in Foreign Currencies; and Warehousing Agreements

Interest income on U.S. government, federal agency, and GSE securities and investments denominated in foreign currencies comprising the SOMA is accrued on a straight-line basis. Gains and losses resulting from sales of securities are determined by specific issue based on average cost. Foreign-currency-denominated assets are revalued daily at current foreign currency market exchange rates in order to report these assets in U.S. dollars. Realized and unrealized gains and losses on investments denominated in foreign currencies are reported as "Foreign currency (losses) gains, net" in the Statements of Income and Comprehensive Income.

Activity related to U.S. government, federal agency, and GSE securities, including the premiums, discounts, and realized gains and losses, is allocated to each Reserve Bank on a percentage basis derived from an annual settlement of the interdistrict settlement account that occurs in April of each year. The settlement also equalizes Reserve Bank gold certificate holdings to Federal Reserve notes outstanding in each District. Activity related to investments denominated in foreign currencies, including the premiums, discounts, and realized and unrealized gains and losses, is allocated to each Reserve Bank based on the ratio of each Reserve Bank's capital and surplus to aggregate capital and surplus at the preceding December 31.

Warehousing is an arrangement under which the FOMC agrees to exchange, at the request of the U.S. Treasury, U.S. dollars for foreign currencies held by the U.S. Treasury or ESF over a limited period of time. The purpose of the warehousing facility is to supplement the U.S. dollar resources of the U.S. Treasury and ESF for financing purchases of foreign currencies and related international operations.

Warehousing agreements are designated as held for trading purposes and are valued daily at current market exchange rates. Activity related to these agreements is allocated to each Reserve Bank based on the ratio of each Reserve Bank's capital and surplus to aggregate capital and surplus at the preceding December 31.

e. Central Bank Liquidity Swaps

At the initiation of each central bank liquidity swap transaction, the foreign central bank transfers a specified amount of its currency to the FRBNY in exchange for U.S. dollars at the prevailing market exchange rate. Concurrent with this transaction, the FRBNY and the foreign central bank agree to a second transaction that obligates the foreign central bank to return the U.S. dollars and the FRBNY to return the foreign currency on a specified future date at the same exchange rate. The foreign currency amounts that the FRBNY acquires are reported as "Central bank liquidity swaps" on the Statements of Condition. Because the swap transaction will be unwound at the same exchange rate that was used in the initial transaction, the recorded value of the foreign currency amounts is not affected by changes in the market exchange rate.

The foreign central bank pays interest to the FRBNY based on the foreign currency amounts held by the FRBNY. The FRBNY recognizes interest income during the term of the swap agreement and reports the interest income as a component of "Interest income: Central bank liquidity swaps" in the Statements of Income and Comprehensive Income.

Activity related to these swap transactions, including the related interest income, is allocated to each Reserve Bank based on the ratio of each Reserve Bank's capital and surplus to aggregate capital and surplus at the preceding December 31. Similar to other investments denominated in foreign currencies, the foreign currency holdings associated with these central bank liquidity swaps are revalued at current foreign currency market exchange rates. Because the swap arrangement will be unwound at the same exchange rate that was used in the initial transaction, the obligation to return the foreign currency is also revalued at current foreign currency market exchange rates and is recorded in a currency exchange valuation account by the FRBNY. This revaluation method eliminates the effects of the changes in the market exchange rate. As of December 31, 2008, the FRBNY began allocating this currency exchange valuation account to the Bank and, as a result, the reported amount of central bank liquidity swaps reflects the Bank's allocated portion at the contract exchange rate.

f. Interdistrict Settlement Account

At the close of business each day, each Reserve Bank aggregates the payments due to or from other Reserve Banks. These payments result from transactions between the Reserve Banks and transactions that involve depository institution accounts held by other Reserve Banks, such as Fedwire funds and securities transfers and check and ACH transactions. The cumulative net amount due to or from the other Reserve Banks is reflected in the "Interdistrict settlement account" in the Statements of Condition.

g. Bank Premises, Equipment, and Software

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from two to 50 years. Major alterations, renovations, and improvements are capitalized at cost as additions to the asset accounts and are depreciated over the remaining useful life of the asset or, if appropriate, over the unique useful life of the alteration, renovation, or improvement. Maintenance, repairs, and minor replacements are charged to operating expense in the year incurred.

Costs incurred for software during the application development stage, whether developed internally or acquired for internal use, are capitalized based on the cost of direct services and materials associated with designing, coding, installing, and testing the software. Capitalized software costs are amortized on a straight-line basis over the estimated useful lives of the software applications, which range from two to five years. Maintenance costs related to software are charged to expense in the year incurred.

Capitalized assets, including software, buildings, leasehold improvements, furniture, and equipment are impaired and an adjustment is recorded when events or changes in circumstances indicate that the carrying amount of assets or asset groups is not recoverable and significantly exceeds the assets' fair value.

h. Federal Reserve Notes

Federal Reserve notes are the circulating currency of the United States. These notes are issued through the various Federal Reserve agents (the chairman of the board of directors of each Reserve Bank and their designees) to the Reserve Banks upon deposit with such agents of specified classes of collateral security, typically U.S. government securities. These notes are identified as issued to a specific Reserve Bank. The Federal Reserve Act provides that the collateral security tendered by the Reserve Bank to the Federal Reserve agent must be at least equal to the sum of the notes applied for by such Reserve Bank.

Assets eligible to be pledged as collateral security include all of the Bank's assets. The collateral value is equal to the book value of the collateral tendered with the exception of securities, for which the collateral value is equal to the par value of the securities tendered. The par value of securities pledged for securities sold under agreements to repurchase is deducted.

The Board of Governors may, at any time, call upon a Reserve Bank for additional security to adequately collateralize the outstanding Federal Reserve notes. To satisfy the obligation to provide sufficient collateral for outstanding Federal Reserve notes, the Reserve Banks have entered into an agreement that provides for certain assets of the Reserve Banks to be jointly pledged as collateral for the Federal Reserve notes issued to all Reserve Banks. In the event that this collateral is insufficient, the Federal Reserve Act provides that Federal Reserve notes become a first and paramount lien on all the assets of the Reserve Banks. Finally, Federal Reserve notes are obligations of the United States government. At December 31, 2008 and 2007, all Federal Reserve notes issued to the Reserve Banks were fully collateralized.

"Federal Reserve notes outstanding, net" in the Statements of Condition represents the Bank's Federal Reserve notes outstanding, reduced by the Bank's currency holdings of $20,767 million and $24,860 million at December 31, 2008 and 2007, respectively.

i. Items in Process of Collection and Deferred Credit Items

"Items in process of collection" in the Statements of Condition primarily represents amounts attributable to checks that have been deposited for collection and that, as of the balance sheet date, have not yet been presented to the paying bank. "Deferred credit items" are the counterpart liability to items in process of collection, and the amounts in this account arise from deferring credit for deposited items until the amounts are collected. The balances in both accounts can vary significantly.

j. Capital Paid-in

The Federal Reserve Act requires that each member bank subscribe to the capital stock of the Reserve Bank in an amount equal to 6 percent of the capital and surplus of the member bank. These shares are nonvoting with a par value of $100 and may not be transferred or hypothecated. As a member bank's capital and surplus changes, its holdings of Reserve Bank stock must be adjusted. Currently, only one-half of the subscription is paid-in and the remainder is subject to call. A member bank is liable for Reserve Bank liabilities up to twice the par value of stock subscribed by it.

By law, each Reserve Bank is required to pay each member bank an annual dividend of 6 percent on the paid-in capital stock. This cumulative dividend is paid semiannually. To reflect the Federal Reserve Act requirement that annual dividends be deducted from net earnings, dividends are presented as a distribution of comprehensive income in the Statements of Income and Comprehensive Income.

k. Surplus

The Board of Governors requires the Reserve Banks to maintain a surplus equal to the amount of capital paid-in as of December 31 of each year. This amount is intended to provide additional capital and reduce the possibility that the Reserve Banks will be required to call on member banks for additional capital.

Accumulated other comprehensive income is reported as a component of surplus in the Statements of Condition and the Statements of Changes in Capital. The balance of accumulated other comprehensive income is comprised of expenses, gains, and losses related to other postretirement benefit plans that, under accounting standards, are included in other comprehensive income, but excluded from net income. Additional information regarding the classifications of accumulated other comprehensive income is provided in Notes 12 and 13.

l. Interest on Federal Reserve Notes

The Board of Governors requires the Reserve Banks to transfer excess earnings to the U.S. Treasury as interest on Federal Reserve notes after providing for the costs of operations, payment of dividends, and reservation of an amount necessary to equate surplus with capital paid-in. This amount is reported as "Payments to U.S. Treasury as interest on Federal Reserve notes" in the Statements of Income and Comprehensive Income and is reported as a liability, or as an asset if overpaid during the year, in the Statements of Condition. Weekly payments to the U.S. Treasury may vary significantly.

In the event of losses or an increase in capital paid-in at a Reserve Bank, payments to the U.S. Treasury are suspended and earnings are retained until the surplus is equal to the capital paid-in.

In the event of a decrease in capital paid-in, the excess surplus, after equating capital paid-in and surplus at December 31, is distributed to the U.S. Treasury in the following year.

m. Interest on Depository Institutions Deposits

Beginning October 9, 2008, the Reserve Banks began paying interest to depository institutions on qualifying balances held at the Banks. Authorization for payment of interest on these balances was granted by Title II of the Financial Services Regulatory Relief Act of 2006, which had an effective date of 2011. Section 128 of the Emergency Economic Stabilization Act of 2008, enacted on October 3, 2008, made that authority immediately effective. The interest rates paid on required reserve balances and excess balances are based on an FOMC-established target range for the effective federal funds rate.

n. Income and Costs Related to U.S. Treasury Services

The Bank is required by the Federal Reserve Act to serve as fiscal agent and depository of the United States. By statute, the Department of the Treasury has appropriations to pay for these services. During the years ended December 31, 2008 and 2007, the Bank was reimbursed for all services provided to the Department of the Treasury as its fiscal agent.

o. Compensation Received for Services Provided

The Federal Reserve Bank of Atlanta ("FRBA") has overall responsibility for managing the Reserve Banks' provision of check and ACH services to depository institutions and, as a result, recognizes total System revenue for these services on its Statements of Income and Comprehensive Income. Similarly, the FRBNY manages the Reserve Banks' provision of Fedwire funds and securities transfer services, and recognizes total System revenue for these services on its Statements of Income and Comprehensive Income. The FRBA and FRBNY compensate the other Reserve Banks for the costs incurred to provide these services. The Bank reports this compensation as "Compensation received for services provided" in the Statements of Income and Comprehensive Income.

p. Assessments by the Board of Governors

The Board of Governors assesses the Reserve Banks to fund its operations based on each Reserve Bank's capital and surplus balances as of December 31 of the prior year. The Board of Governors also assesses each Reserve Bank for the expenses incurred for the U.S. Treasury to prepare and retire Federal Reserve notes based on each Reserve Bank's share of the number of notes comprising the System's net liability for Federal Reserve notes on December 31 of the prior year.

q. Taxes

The Reserve Banks are exempt from federal, state, and local taxes, except for taxes on real property and, in some states, sales taxes on construction-related materials. The Bank's real property taxes were $4 million for each of the years ended December 31, 2008 and 2007, and are reported as a component of "Occupancy expense."

r. Restructuring Charges

The Reserve Banks recognize restructuring charges for exit or disposal costs incurred as part of the closure of business activities in a particular location, the relocation of business activities from one location to another, or a fundamental reorganization that affects the nature of operations. Restructuring charges may include costs associated with employee separations, contract terminations, and asset impairments. Expenses are recognized in the period in which the Bank commits to a formalized restructuring plan or executes the specific actions contemplated in the plan and all criteria for financial statement recognition have been met.

Note 14 describes the Bank's restructuring initiatives and provides information about the costs and liabilities associated with employee separations and contract terminations. The costs associated with the impairment of certain of the Bank's assets are discussed in Note 9. Costs and liabilities associated with enhanced pension benefits in connection with the restructuring activities for all of the Reserve Banks are recorded on the books of the FRBNY.

s. Recently Issued Accounting Standards

In September 2006, FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which established a single authoritative definition of fair value and a framework for measuring fair value, and expands the required disclosures for assets and liabilities measured at fair value. SFAS 157 was effective for fiscal years beginning after November 15, 2007, with early adoption permitted. The Bank adopted SFAS 157 effective January 1, 2008. The provisions of this standard have no material effect on the Bank's financial statements.

In February 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115" ("SFAS 159"), which provides companies with an irrevocable option to elect fair value as the measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments that are not subject to fair value under other accounting standards. There is a one-time election available to apply this standard to existing financial instruments as of January 1, 2008; otherwise, the fair value option will be available for financial instruments on their initial transaction date. SFAS 159 reduces the accounting complexity for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently, and it eliminates the operational complexities of applying hedge accounting. The Bank adopted SFAS 159 effective January 1, 2008. The provisions of this standard have no material effect on the Bank's financial statements.

In February 2008, FASB issued FASB Staff Position ("FSP") FAS 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions." FSP FAS 140-3 requires that an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously with, or in contemplation of, the initial transfer be evaluated together as a linked transaction under SFAS 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", unless certain criteria are met. FSP FAS 140-3 is effective for the Bank's financial statements for the year beginning on January 1, 2009, and earlier adoption is not permitted. The provisions of this standard will not have a material effect on the Bank's financial statements.

5. LOANS

The loan amounts outstanding to depository institutions at December 31 were as follows (in millions):

	2008	2007
Primary, secondary, and seasonal credit	$ 692	$ —
TAF	4,335	1,400
Total loans to depository institutions	**$ 5,027**	**$ 1,400**

Loans to Depository Institutions

The Bank offers primary, secondary, and seasonal credit to eligible borrowers. Each program has its own interest rate. Interest is accrued using the applicable interest rate established at least every 14 days by the board of directors of the Bank, subject to review and determination by the Board of Governors. Primary and secondary credits are extended on a short-term basis, typically overnight, whereas seasonal credit may be extended for a period up to nine months.

Primary, secondary, and seasonal credit lending is collateralized to the satisfaction of the Bank to reduce credit risk. Assets eligible to collateralize these loans include consumer, business, and real estate loans, U.S. Treasury securities, federal agency securities, GSE obligations, foreign sovereign debt obligations, municipal or corporate obligations, state and local government obligations, asset-backed securities, corporate bonds, commercial paper, and bank-issued assets, such as certificates of deposit, bank notes, and deposit notes. Collateral is assigned a lending value deemed appropriate by the Bank, which is typically fair value or face value reduced by a margin.

Depository institutions that are eligible to borrow under the Bank's primary credit program are also eligible to participate in the temporary TAF program. Under the TAF program, the Reserve Banks conduct auctions for a fixed amount of funds, with the interest rate determined by the auction process, subject to a minimum bid rate. TAF loans are extended on a short-term basis, with terms of either 28 or 84 days. All advances under the TAF must be fully collateralized. Assets eligible to collateralize TAF loans include the complete list noted above for loans to depository institutions. Similar to the process used for primary, secondary, and seasonal credit, a lending value is assigned to each asset accepted as collateral for TAF loans.

Loans to depository institutions are monitored on a daily basis to ensure that borrowers continue to meet eligibility requirements for these programs. The financial condition of borrowers is monitored by the Bank and, if a borrower no longer qualifies for these programs, the Bank will generally request full repayment of the outstanding loan or may convert the loan to a secondary credit loan.

Collateral levels are reviewed daily against outstanding obligations, and borrowers that no longer have sufficient collateral to support outstanding loans are required to provide additional collateral or to make partial or full repayment.

The maturity distribution of loans outstanding at December 31, 2008, was as follows (in millions):

	Primary, Secondary, and Seasonal Credit	TAF
Within 15 days	$ 160	$ 2,010
16 days to 90 days	532	2,325
Total loans	**$ 692**	**$ 4,335**

Allowance for Loan Losses

At December 31, 2008 and 2007, no loans were considered to be impaired, and the Bank determined that no allowance for loan losses was required.

6. U.S. GOVERNMENT, FEDERAL AGENCY, AND GOVERNMENT-SPONSORED-ENTERPRISE SECURITIES; SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL; SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE; AND SECURITIES LENDING

The FRBNY, on behalf of the Reserve Banks, holds securities bought outright in the SOMA. The Bank's allocated share of SOMA balances was approximately 4.148 percent and 4.394 percent at December 31, 2008 and 2007, respectively.

The Bank's allocated share of U.S. government, federal agency, and GSE securities, net held in the SOMA at December 31 was as follows (in millions):

	2008	2007
U.S. government securities:		
Bills	$ 764	$ 10,010
Notes	13,887	17,653
Bonds	5,091	4,877
Federal agency and GSE securities	817	—
Total par value	**20,559**	**32,540**
Unamortized premiums	334	351
Unaccreted discounts	(62)	(131)
Total allocated to the Bank	**$ 20,831**	**$ 32,760**

At December 31, 2008 and 2007, the fair value of the U.S. government, federal agency, and GSE securities allocated to the Bank, excluding accrued interest, was $23,496 million and $34,145 million, respectively, as determined by reference to quoted prices for identical securities.

The total of the U.S. government, federal agency, and GSE securities, net, held in the SOMA was $502,189 million and $745,629 million at December 31, 2008 and 2007, respectively. At December 31, 2008 and 2007, the fair value of the U.S. government, federal agency, and GSE securities held in the SOMA, excluding accrued interest, was $566,427 million and $777,141 million, respectively, as determined by reference to quoted prices for identical securities.

Although the fair value of security holdings can be substantially greater than or less than the recorded value at any point in time, these unrealized gains or losses have no effect on the ability of the Reserve Banks, as central bank, to meet their financial obligations and responsibilities and do not represent a risk to the Reserve Banks, their shareholders, or the public. The fair value is presented solely for informational purposes.

Financial information related to securities purchased under agreements to resell and securities sold under agreements to repurchase for the years ended December 31, 2008 and 2007, were as follows (in millions):

	Securities Purchased Under Agreements to Resell		Securities Sold Under Agreements to Repurchase	
	2008	2007	2008	2007
Allocated to the Bank:				
Contract amount outstanding, end of the year	$ 3,318	$ 2,043	$ 3,665	$ 1,933
Weighted average amount outstanding, during the year	4,025	1,541	2,715	1,531
Maximum month-end balance outstanding, during the year	4,936	2,263	4,088	1,933
Securities pledged, end of the year	—	—	3,273	1,935
System total:				
Contract amount outstanding, end of the year	$ 80,000	$ 46,500	$ 88,352	$ 43,985
Weighted average amount outstanding, during the year	97,037	35,073	65,461	34,846
Maximum month-end balance outstanding, during the year	119,000	51,500	98,559	43,985
Securities pledged, end of the year	—	—	78,896	44,048

The contract amounts for securities purchased under agreements to resell and securities sold under agreements to repurchase approximate fair value.

The maturity distribution of U.S. government, federal agency, and GSE securities bought outright, securities purchased under agreements to resell, and securities sold under agreements to repurchase that were allocated to the Bank at December 31, 2008, was as follows (in millions):

	U.S. Government Securities (Par value)	Federal Agency and GSE Securities (Par value)	Subtotal: U.S. Government, Federal Agency, and GSE Securities (Par value)	Securities Purchased Under Agreements to Resell (Contract amount)	Securities Sold Under Agreements to Repurchase (Contract amount)
Within 15 days	$ 794	$ 19	$ 813	$ 1,659	$ 3,665
16 days to 90 days	870	136	1,006	1,659	—
91 days to 1 year	2,627	40	2,667	—	—
Over 1 year to 5 years	7,190	471	7,661	—	—
Over 5 years to 10 years	4,037	151	4,188	—	—
Over 10 years	4,224	—	4,224	—	—
Total allocated to the Bank	**$ 19,742**	**$ 817**	**$ 20,559**	**$ 3,318**	**$ 3,665**

At December 31, 2008 and 2007, U.S. government securities with par values of $180,765 million and $16,649 million, respectively, were loaned from the SOMA, of which $7,498 million and $732 million, respectively, were allocated to the Bank.

7. INVESTMENTS DENOMINATED IN FOREIGN CURRENCIES

The FRBNY, on behalf of the Reserve Banks, holds foreign currency deposits with foreign central banks and with the Bank for International Settlements and invests in foreign government debt instruments. These investments are guaranteed as to principal and interest by the issuing foreign governments.

The Bank's allocated share of investments denominated in foreign currencies was approximately 1.970 percent and 1.382 percent at December 31, 2008 and 2007, respectively.

The Bank's allocated share of investments denominated in foreign currencies, including accrued interest, valued at foreign currency market exchange rates at December 31, was as follows (in millions):

	2008	2007
Euro:		
Foreign currency deposits	$ 110	$ 100
Securities purchased under agreements to resell	80	35
Government debt instruments	91	64
Japanese yen:		
Foreign currency deposits	69	39
Government debt instruments	139	79
Total allocated to the Bank	**$ 489**	**$ 317**

At December 31, 2008 and 2007, the fair value of investments denominated in foreign currencies, including accrued interest, allocated to the Bank was $493 million and $316 million, respectively. The fair value of government debt instruments was determined by reference to quoted prices for identical securities. The cost basis of foreign currency deposits and securities purchased under agreements to resell, adjusted for accrued interest, approximates fair value. Similar to the U.S. government, federal agency, and GSE securities discussed in Note 6, unrealized gains or losses have no effect on the ability of a Reserve Bank, as central bank, to meet its financial obligations and responsibilities.

Total System investments denominated in foreign currencies were $24,804 million and $22,914 million at December 31, 2008 and 2007, respectively. At December 31, 2008 and 2007, the fair value of the total System investments denominated in foreign currencies, including accrued interest, was $25,021 million and $22,892 million, respectively.

The maturity distribution of investments denominated in foreign currencies that were allocated to the Bank at December 31, 2008, was as follows (in millions):

	Euro	Japanese Yen	Total
Within 15 days	$ 150	$ 69	$ 219
16 days to 90 days	23	12	35
91 days to 1 year	34	39	73
Over 1 year to 5 years	74	88	162
Total allocated to the Bank	**$ 281**	**$ 208**	**$ 489**

At December 31, 2008 and 2007, the authorized warehousing facility was $5.0 billion, with no balance outstanding.

In connection with its foreign currency activities, the FRBNY may enter into transactions that contain varying degrees of off-balance-sheet market risk that result from their future settlement and counterparty credit risk. The FRBNY controls these risks by obtaining credit approvals, establishing transaction limits, and performing daily monitoring procedures.

8. CENTRAL BANK LIQUIDITY SWAPS

Central bank liquidity swap arrangements are contractual agreements between two parties, the FRBNY and an authorized foreign central bank, whereby the parties agree to exchange their currencies up to a prearranged maximum amount and for an agreed-upon period of time. At the end of that period of time, the currencies are returned at the original contractual exchange rate, and the foreign central bank pays interest to the Federal Reserve at an agreed-upon rate. These arrangements give the authorized foreign central bank temporary access to U.S. dollars. Drawings under the swap arrangements are initiated by the foreign central bank and must be agreed to by the Federal Reserve.

The Bank's allocated share of central bank liquidity swaps was approximately 1.970 percent and 1.382 percent at December 31, 2008 and 2007, respectively.

At December 31, 2008 and 2007, the total System amount of foreign currency held under central bank liquidity swaps was $553,728 million and $24,353 million, respectively, of which $10,908 million and $336 million, respectively, was allocated to the Bank.

The maturity distribution of central bank liquidity swaps that were allocated to the Bank at December 31 was as follows (in millions):

	2008			2007
	Within 15 days	16 days to 90 days	Total	16 days to 90 days
Australian dollar	$ 197	$ 253	$ 450	$ —
Danish krone	—	296	296	—
Euro	2,974	2,765	5,739	280
Japanese yen	943	1,474	2,417	—
Korean won	—	204	204	—
Norwegian krone	43	119	162	—
Swedish krona	197	295	492	—
Swiss franc	379	117	496	56
U.K. pound	3	649	652	—
Total	**$ 4,736**	**$ 6,172**	**$ 10,908**	**$ 336**

9. BANK PREMISES, EQUIPMENT, AND SOFTWARE

Bank premises and equipment at December 31 were as follows (in millions):

	2008	2007
Bank premises and equipment:		
Land	$ 61	$ 61
Buildings	226	227
Building machinery and equipment	38	37
Construction in progress	2	—
Furniture and equipment	74	74
Subtotal	401	399
Accumulated depreciation	(123)	(112)
Bank premises and equipment, net	**$ 278**	**$ 287**
Depreciation expense, for the year ended December 31	**$ 15**	**$ 14**

The Bank leases space to outside tenants, with remaining lease terms ranging from four to nine years. Rental income from such leases was $2 million and $1 million for the years ended December 31, 2008 and 2007, respectively, and is reported as a component of "Other income." Future minimum lease payments that the Bank will receive under noncancelable lease agreements in existence at December 31, 2008, are as follows (in thousands):

2009	$ 1,621
2010	1,625
2011	1,628
2012	1,480
2013	1,183
Thereafter	3,317
Total	**$ 10,854**

The Bank has capitalized software assets, net of amortization, of $3 million and $4 million at December 31, 2008 and 2007, respectively. Amortization expense was $2 million for each of the years ended December 31, 2008 and 2007. Capitalized software assets are reported as a component of "Other assets" and the related amortization is reported as a component of "Other expenses."

10. COMMITMENTS AND CONTINGENCIES

In the normal course of its operation, the Bank enters into contractual commitments, normally with fixed expiration dates or termination provisions, at specific rates and for specific purposes.

At December 31, 2008, the Bank was obligated under noncancelable leases for premises and equipment, with remaining terms ranging from one to approximately three years. These leases provide for increased rental payments based upon increases in real estate taxes and operating costs.

Rental expense under operating leases for certain operating facilities, warehouses, and data processing and office equipment (including taxes, insurance, and maintenance when included in rent), net of sublease rentals, was $235 thousand and $287 thousand for the years ended December 31, 2008 and 2007, respectively. Certain of the Bank's leases have options to renew.

Future minimum rental payments under noncancelable operating leases and capital leases, net of sublease rentals, with terms of one year or more, at December 31, 2008, were not material.

At December 31, 2008, there were no material unrecorded unconditional purchase commitments or long-term obligations in excess of one year.

Under the Insurance Agreement of the Federal Reserve Banks, each of the Reserve Banks has agreed to bear, on a per incident basis, a pro rata share of losses in excess of 1 percent of the capital paid-in of the claiming Reserve Bank, up to 50 percent of the total capital paid-in of all Reserve Banks. Losses are borne in the ratio of a Reserve Bank's capital paid-in to the total capital paid-in of all Reserve Banks at the beginning of the calendar year in which the loss is shared. No claims were outstanding under the agreement at December 31, 2008 or 2007.

11. RETIREMENT AND THRIFT PLANS

Retirement Plans

The Bank currently offers three defined benefit retirement plans to its employees, based on length of service and level of compensation. Substantially all of the Bank's employees participate in the Retirement Plan for Employees of the Federal Reserve System ("System Plan"). Employees at certain compensation levels participate in the Benefit Equalization Retirement Plan ("BEP"), and certain Reserve Bank officers participate in the Supplemental Employee Retirement Plan ("SERP").

The System Plan provides retirement benefits to employees of the Federal Reserve Banks, the Board of Governors, and the Office of Employee Benefits of the Federal Reserve Employee Benefits System. The FRBNY, on behalf of the System, recognizes the net asset or net liability and costs associated with the System Plan in its financial statements. Costs associated with the System Plan are not reimbursed by other participating employers.

The Bank's projected benefit obligation, funded status, and net pension expenses for the BEP and the SERP at December 31, 2008 and 2007, and for the years then ended, were not material.

Thrift Plan

Employees of the Bank may also participate in the defined contribution Thrift Plan for Employees of the Federal Reserve System ("Thrift Plan"). The Bank matches employee contributions based on a specified formula. For the years ended December 31, 2008 and 2007, the Bank matched 80 percent on the first 6 percent of employee contributions for employees with less than five years of service and 100 percent on the first 6 percent of employee contributions for employees with five or more years of service. The Bank's Thrift Plan contributions totaled $4 million for each of the years ended December 31, 2008 and 2007, respectively, and are reported as a component of "Salaries and other benefits" in the Statements of Income and Comprehensive Income. Beginning in 2009, the Bank will match 100 percent of the first 6 percent of employee contributions from the date of hire and provide an automatic employer contribution of 1 percent of eligible pay.

12. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS AND POSTEMPLOYMENT BENEFITS

Postretirement Benefits Other Than Pensions

In addition to the Bank's retirement plans, employees who have met certain age and length-of-service requirements are eligible for both medical benefits and life insurance coverage during retirement.

The Bank funds benefits payable under the medical and life insurance plans as due and, accordingly, has no plan assets.

Following is a reconciliation of the beginning and ending balances of the benefit obligation (in millions):

	2008	2007
Accumulated postretirement benefit obligation at January 1	**$ 77.8**	**$ 82.9**
Service cost-benefits earned during the period	3.1	3.3
Interest cost on accumulated benefit obligation	5.0	5.0
Net actuarial loss (gain)	2.7	(10.6)
Curtailment gain	(1.5)	—
Contributions by plan participants	1.2	1.2
Benefits paid	(4.7)	(4.2)
Medicare Part D subsidies	0.2	0.2
Accumulated postretirement benefit obligation at December 31	**$ 83.8**	**$ 77.8**

At December 31, 2008 and 2007, the weighted-average discount rate assumptions used in developing the postretirement benefit obligation were 6.00 percent and 6.25 percent, respectively.

Discount rates reflect yields available on high-quality corporate bonds that would generate the cash flows necessary to pay the plan's benefits when due.

Following is a reconciliation of the beginning and ending balance of the plan assets, the unfunded postretirement benefit obligation, and the accrued postretirement benefit costs (in millions):

	2008	2007
Fair value of plan assets at January 1	$ —	$ —
Contributions by the employer	3.3	2.8
Contributions by plan participants	1.2	1.2
Benefits paid	(4.7)	(4.2)
Medicare Part D subsidies	0.2	0.2
Fair value of plan assets at December 31	$ —	$ —
Unfunded obligation and accrued postretirement benefit cost	**$ 83.8**	**$ 77.8**
Amounts included in accumulated other comprehensive loss are shown below:		
Prior service cost	$ 1.9	$ 2.3
Net actuarial loss	(17.2)	(17.0)
Deferred curtailment gain	0.2	—
Total accumulated other comprehensive loss	**$ (15.1)**	**$ (14.7)**

Accrued postretirement benefit costs are reported as a component of "Accrued benefit costs" in the Statements of Condition.

For measurement purposes, the assumed health care cost trend rates at December 31 are as follows:

	2008	2007
Health care cost trend rate assumed for next year	7.50%	8.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2014	2013

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A 1 percentage point change in assumed health care cost trend rates would have the following effects for the year ended December 31, 2008 (in millions):

	One Percentage Point Increase	One Percentage Point Decrease
Effect on aggregate of service and interest cost components of net periodic postretirement benefit costs	$ 1.3	$ (1.1)
Effect on accumulated postretirement benefit obligation	11.0	(9.1)

The following is a summary of the components of net periodic postretirement benefit expense for the years ended December 31 (in millions):

	2008	2007
Service cost-benefits earned during the period	$ 3.1	$ 3.3
Interest cost on accumulated benefit obligation	5.0	5.0
Amortization of prior service cost	(0.5)	(0.4)
Amortization of net actuarial loss	1.3	3.4
Net periodic postretirement benefit expense	**$ 8.9**	**$ 11.3**
Estimated amounts that will be amortized from accumulated other comprehensive loss into net periodic postretirement benefit expense (credit) in 2009 are shown below:		
Prior service cost	$ (0.4)	
Net actuarial loss	1.0	
Total	**$ 0.6**	

Net postretirement benefit costs are actuarially determined using a January 1 measurement date. At January 1, 2008 and 2007, the weighted-average discount rate assumptions used to determine net periodic postretirement benefit costs were 6.25 percent and 5.75 percent, respectively.

Net periodic postretirement benefit expense is reported as a component of "Salaries and other benefits" in the Statements of Income and Comprehensive Income.

A deferred curtailment gain was recorded in 2008 as a component of accumulated other comprehensive loss; the gain will be recognized in net income in future years when the related employees terminate employment.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 established a prescription drug benefit under Medicare ("Medicare Part D") and a federal subsidy to sponsors of retiree health care benefit plans that provide benefits that are at least actuarially equivalent to Medicare Part D. The benefits provided under the Bank's plan to certain participants are at least actuarially equivalent to the Medicare Part D prescription drug benefit. The estimated effects of the subsidy are reflected in actuarial loss in the accumulated postretirement benefit obligation and net periodic postretirement benefit expense.

Federal Medicare Part D subsidy receipts were $0.2 million for each of the years ending December 31, 2008 and 2007. Expected receipts in 2009, related to benefits paid in the years ended December 31, 2008 and 2007, are $0.1 million.

Following is a summary of expected postretirement benefit payments (in millions):

	Without Subsidy	With Subsidy
2009	$ 4.1	$ 3.8
2010	4.6	4.3
2011	5.0	4.6
2012	5.4	4.9
2013	5.7	5.2
2014–2018	34.0	30.1
Total	**$ 58.8**	**$ 52.9**

Postemployment Benefits

The Bank offers benefits to former or inactive employees. Postemployment benefit costs are actuarially determined and include the cost of medical and dental insurance, survivor income, disability benefits, and self-insured workers' compensation expenses. The accrued postemployment benefit costs recognized by the Bank at December 31, 2008 and 2007, were $6 million and $7 million, respectively. This cost is included as a component of "Accrued benefit costs" in the Statements of Condition. Net periodic postemployment benefit expense included in operating expenses for each of the years ended December 31, 2008 and 2007, were $162 thousand and $1 million, respectively, and are recorded as a component of "Salaries and other benefits" in the Statements of Income and Comprehensive Income.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME AND OTHER COMPREHENSIVE INCOME

Following is a reconciliation of beginning and ending balances of accumulated other comprehensive income (loss) (in millions):

	Amount Related to Postretirement Benefits Other Than Pensions
Balance at January 1, 2007	**$ (28)**
Change in funded status of benefit plans:	
Net actuarial gain arising during the year	11
Amortization of prior service cost	(1)
Amortization of net actuarial loss	3
Change in funded status of benefit plans—other comprehensive loss	13
Balance at December 31, 2007	**$ (15)**
Change in funded status of benefit plans:	
Net actuarial loss arising during the year	$ (1)
Amortization of net actuarial loss	1
Change in funded status of benefit plans—other comprehensive loss	—
Balance at December 31, 2008	**$ (15)**

Additional detail regarding the classification of accumulated other comprehensive loss is included in Note 12.

14. BUSINESS RESTRUCTURING CHARGES

2008 Restructuring Plans

In 2008, the Reserve Banks announced the acceleration of their check restructuring initiatives to align the check processing infrastructure and operations with declining check processing volumes. The new infrastructure will involve consolidation of operations into two regional Reserve Bank processing sites in Cleveland and Atlanta.

2007 Restructuring Plans

There were no costs in 2007 incurred by the bank for restructuring plans.

2006 and Prior Restructuring Costs

In 2006, the Bank announced plans for restructuring to streamline its Houston operations and reduce costs.

Following is a summary of financial information related to the restructuring plans (in millions):

	2006 and Prior Restructuring Plans	2008 Restructuring Plans	Total
Information related to restructuring plans as of December 31, 2008:			
Total expected costs related to restructuring activity	$ 1.0	$ 2.5	$ 3.5
Expected completion date	2008	2008	
Reconciliation of liability balances:			
Balance at January 1, 2007	**$ 1.0**	**$ —**	**$ 1.0**
Adjustments	(0.3)	—	(0.3)
Payments	(0.5)	—	(0.5)
Balance at December 31, 2007	**$ 0.2**	**$ —**	**$ 0.2**
Employee separation costs	—	2.5	2.5
Payments	(0.2)	—	(0.2)
Balance at December 31, 2008	**$ —**	**$ 2.5**	**$ 2.5**

Employee separation costs are primarily severance costs for identified staff reductions associated with the announced restructuring plans. Separation costs that are provided under terms of ongoing benefit arrangements are recorded based on the accumulated benefit earned by the employee. Separation costs that are provided under the terms of one-time benefit arrangements are generally measured based on the expected benefit as of the termination date and recorded ratably over the period to termination. Restructuring costs related to employee separations are reported as a component of "Salaries and other benefits" in the Statements of Income and Comprehensive Income.

Adjustments to the accrued liability are primarily due to changes in the estimated restructuring costs and are shown as a component of the appropriate expense category in the Statements of Income and Comprehensive Income.

Costs associated with enhanced pension benefits for all Reserve Banks are recorded on the books of the FRBNY as discussed in Note 11.

15. SUBSEQUENT EVENTS

In February 2009, the System announced the extension through October 30, 2009, of liquidity programs that were previously scheduled to expire on April 30, 2009. The extension pertains to the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility and the Term Securities Lending Facility. In addition, the temporary reciprocal currency arrangements (swap lines) between the Federal Reserve and other central banks were extended to October 30, 2009.

In 2008, the Board of Governors engaged Deloitte & Touche LLP (D&T) for the audits of the individual and combined financial statements of the Reserve Banks. Fees for D&T's services are estimated to be $10.2 million. Approximately $2.7 million of the estimated total fees were for the audits of the limited liability companies (LLCs) that are associated with recent Federal Reserve actions to address the financial crisis, and are consolidated in the financial statements of the Federal Reserve Bank of New York.[1] To ensure auditor independence, the Board of Governors requires that D&T be independent in all matters relating to the audit. Specifically, D&T may not perform services for the Reserve Banks or others that would place it in a position of auditing its own work, making management decisions on behalf of Reserve Banks, or in any other way impairing its audit independence. In 2008, the Bank did not engage D&T for any non-audit services.

[1] Each LLC will reimburse the Board of Governors for the fees related to the audit of its financial statements from the entity's available net assets

---

Volume of Operations

(UNAUDITED)

	Number of Items Handled (Thousands)		Dollar Amount (Millions)	
	2008	2007	2008	2007
SERVICES TO DEPOSITORY INSTITUTIONS				
CASH SERVICES				
Federal Reserve notes processed	2,916,096	3,041,050	53,842	55,830
Currency received from circulation	3,054,127	3,199,798	54,254	55,936
Coin received from circulation	630,008	723,432	101	105
CHECK PROCESSING				
Commercial-processed	419,309	738,826	504,900	902,479
Commercial-fine sorted	2,131	4,556	789	4,802
Check 21 Forward Substitute Check—processed	235,321	203,037	361,798	360,212
LOANS				
Advances made	273*	80*	30,272	1,654

** Individual loans, not in thousands.*

About the Dallas Fed

The Federal Reserve Bank of Dallas is one of 12 regional Federal Reserve Banks in the United States. Together with the Board of Governors in Washington, D.C., these organizations form the Federal Reserve System and function as the nation's central bank. The System's basic purpose is to provide a flow of money and credit that will foster orderly economic growth and a stable dollar. In addition, Federal Reserve Banks supervise banks and bank holding companies and provide certain financial services to the banking industry, the federal government and the public.

The Federal Reserve Bank of Dallas has served the financial institutions in the Eleventh District since 1914. The district encompasses 350,000 square miles and comprises the state of Texas, northern Louisiana and southern New Mexico. The three branch offices of the Dallas Fed are in El Paso, Houston and San Antonio.

Federal Reserve Bank of Dallas
2200 North Pearl Street
Dallas, TX 75201
214-922-6000

El Paso Branch
301 East Main Street
El Paso, TX 79901
915-521-5200

Houston Branch
1801 Allen Parkway
Houston, TX 77019
713-483-3000

San Antonio Branch
126 East Nueva Street
San Antonio, TX 78204
210-978-1200

Website
www.dallasfed.org

Gloria V. Brown
Vice President, Public Affairs

Carol Dirks
Publications Director

Monica Reeves
Editor

Jennifer Afflerbach
Associate Editor

Gene Autry
Art Director and Photographer

Samantha Coplen
Graphic Designer

Jeffery W. Gunther
Robert R. Moore
Kenneth J. Robinson
Contributing Editors,
"The Financial Crisis: Connecting the Dots"