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Consultants are highly skilled employees who contribute to attaining the Bank's goals through their specialized professional or technical skills.

Operational Highlights



The Federal Reserve Bank of Cleveland's major responsibilities fall into three principal categories: the provision of financial services to banking institutions and the U.S. Treasury, supervision and regulation of banking organizations, and economic research and monetary policy. The Bank's activities and undertakings in these areas are carried out with the high degree of public purpose and commitment that is the proud tradition of the Federal Reserve System. This section describes some of the Bank's achievements in 2000 in each of its major areas of responsibility.

Payments Services *The Federal Reserve Bank of Cleveland maintained its strong performance in 2000, meeting all financial targets and most performance objectives and significantly expanding its contributions to the Federal Reserve System. Increased competition, industry consolidation, and emerging payments technologies were just a few of the issues confronting Fourth District financial institutions in 2000. In a technology-driven financial services industry in which rapid change is the only constant, the Cleveland Fed fulfilled its responsibilities to Fourth District depository institutions by delivering efficiently produced financial services and by meeting the standards of quality that we expect of ourselves and that our customers desire.*

The Cleveland Fed directly supported the System's financial goals by exceeding its target for local net revenue and by posting the lowest expense growth of all Reserve Banks. Our Bank ranked second among the 12 Reserve Banks in the cross-sectional unit-cost index, a Systemwide comparison of efficiency. All financial services—retail payments, wholesale payments, and cash—ranked in the top quartile for lowest unit cost.

The Bank's largest priced service, check processing, saw productivity rise 8.3 percent over 1999. The Check function surpassed its cost/revenue target (94.4 percent) to achieve a recovery rate of 101.4 percent. It exceeded its local net revenue target—the difference between revenue generated in the Fourth District and the Bank's total operating and float costs—significantly assisting the Federal Reserve System in meeting its national cost-recovery targets.

The Bank played an important System leadership role in developing the FedLine® for Windows® project, a new infrastructure and operating system that responds to customers' needs for

highly secure and flexible electronic-transaction software. The Federal Reserve System's FedLine for Windows Installation Center, housed in Cleveland, began startup operations in preparation for the FedLine 2001 rollout. This facility will provide implementation and security software components for the installation of FedLine for Windows nationwide.

In partnership with the Federal Reserve Bank of Atlanta, the Cleveland Fed continued to lead the Retail Product Office, which manages check-processing and automated clearing-house operations for the Federal Reserve System. Cleveland staff are managing the Check Modernization Project, a four-year Systemwide initiative that will standardize check processing at all 45 Reserve Bank offices, adopt a common software for processing and researching check-adjustment cases, create a national check-image archive and retrieval system, and deliver check services to customers on a Web-based platform. The Retail Product Office successfully standardized forward- and return-item services across Reserve Banks and developed a series of comprehensive management information reports to compare the Reserve Banks' product mix, pricing, and contribution margins. As part of the Check Modernization Project, the Bank has entered into a systemwide contract with PricewaterhouseCoopers (PwC) for management consulting services. Expenditures for these services during the year 2000 totaled \$0.8 million. The term of this contract extends to 2003 with total expected payments in future years of \$2.5 million. PwC is also under contract with the Board of Governors of the Federal Reserve System to audit each Reserve Bank's financial statements. The Bank's board of directors has considered and concluded that the consulting contract is not incompatible with PwC's financial statement audit responsibilities and should not affect the auditor's independence.

®Fedline is a registered trademark of the Federal Reserve System.

The Cash Department ranked first in the System for high-speed currency-processing productivity, and it helped to relieve System backlogs by processing 253 million notes from other Federal Reserve Districts. Returns of Y2K currency and the closing of strategic inventory locations in the Fourth District were handled appropriately. New coin-terminal arrangements were set up to reduce costs to the Reserve Banks and to depository institutions.

The Cleveland Fed led the Standard Cash Automation Project, a new software application that will automate cash accounting, control, and reporting functions. The system will be used nationwide by all Federal Reserve cash facilities.

The Bank continued to direct the System's online cash-ordering software application—FedLine Cash Web—and served as the software development site for the U.S. Treasury's Savings Bond Architecture Project, which will increase the System's five savings bond processing sites' ability to provide uniform products and services.

The U.S. Treasury designated the Cleveland Fed to assist with its e-commerce initiatives. The Bank is providing the processing support for a major component of the Web-based application *pay.gov*, which will authorize and settle government payments over the Internet.

One of the Bank's key priorities is providing depository institutions with top-notch customer service. Strengthening customer satisfaction was a major commitment for the Cleveland Fed in 2000. The Bank's account executives focused on building customer relationships by increasing their volume of customer contacts and visits to banks throughout the Fourth District. The Check function set up help desks to provide customers solutions to questions and problems, enhanced proficiency training programs for customer service representatives, and implemented an automated customer service information system to log interactions with customers, track problems from initial phone call to resolution, and provide staff with customer profile information.

Supervision and Regulation *Technological advances are quickly transforming the face of the community banks and bank holding companies we supervise, changing the nature of their operations and introducing new risks. To meet our responsibilities in the face of this change, in 2000 we continued to enhance our supervisory processes, exploit new technologies, enhance staff development, and improve communication flows to bankers and to the public. We believe our actions in these areas have made our supervision more effective, more efficient, and less burdensome.*

The Bank fully implemented its program for large, complex banking organizations and continued to refine its procedures for identifying supervisory risks within these organizations. To this end, teams were established to monitor and direct supervision activities for companies with assets over \$10 billion.

The Supervision and Regulation Department shared its expertise by participating as instructors and presenters in Federal Reserve examiner training programs, including the System's Technology Risk Integration course.

The Bank placed particular emphasis on making greater use of technology through SuperLink, the Supervision and Regulation Department's knowledge-management system. This initiative produced a performance database that tracks the Bank's strategic initiatives and corporate balanced scorecards to make these business practices more effective.

Changes at banking organizations necessitate rigorous updating of our supervisory processes. To meet our mandate of promoting a safe and sound banking system, the Cleveland Fed continued to integrate risk-focused processes into its examinations. In 2000, the Supervision and Regulation function was successful in providing a comprehensive supervisory process to address existing and emerging risks within information systems supervision.

The Bank strengthened its network of global relationships by engaging in international training and supervisory activities. We deepened our relationships with foreign monetary authorities by hosting visitors from the People's Bank of China.

The function placed strong emphasis on increasing communication, outreach programs, and training efforts with community bankers and the public. The department released a new publication (available on the Bank's Web site), *Fourth District Conditions*, to feature current trends and emerging risks affecting Fourth District financial institutions. Supervision and Regulation staff conducted seminars to update bankers on new privacy regulations under the Gramm-Leach-Bliley Act, the Real Estate Settlement Procedures Act, and Regulation Z. A joint training session on the examination process was held in collaboration with the State of Ohio, and a number of meetings were held with the Federal Home Loan Banks in Cincinnati and Pittsburgh to ensure strong relationships with key industry-funding sources.

The Federal Reserve Bank of Cleveland is a strong advocate of fair lending, community economic development, and economic and workforce-readiness education. In support of these goals, the Bank's Community Affairs Office produced a microenterprise video and training kit designed for educators and technical-assistance providers to use during small-business orientation and instruction sessions. The Community Affairs Office also published a special report on predatory lending and home equity fraud, along with its regular issues of *CR Forum* (the Community Affairs newsletter) and three comprehensive community reports profiling economic indicators, access to credit, and affordable housing in Lima, Ohio, New Martinsville, West Virginia, and Clay, Jackson, and Rockcastle counties in Kentucky.

Economic Research and Monetary Policy Events in today's dynamic global economy are transforming the environment for monetary policy. Despite extraordinary economic developments in the past several years, one certainty remains—things will change. Looking ahead, economic policymakers will face new and different obstacles to promoting our nation's welfare. Anticipating and preparing for such changes are important aspects of the Bank's responsibility to the Fourth District and to the nation.

The Research Department contributed to public policy discussions by publishing a sizeable body of original research, writing about current policy issues in a focused manner, and taking part in central bank conferences around the world. Research staff published numerous articles and papers on monetary, economic, and banking topics in the Bank's *Economic Commentary* and *Economic Review* series and placed a substantial quantity of papers in academic journals and other scholarly volumes.

The Research staff established the structure and direction for its Central Bank Institute, a new enterprise designed to promote greater understanding of the origins, evolution, and future of central banking practices and institutions. Currently, monetary policy, supervision and regulation, and payments system design are treated as separate and distinct areas of study. The Institute will encourage integrated research on these topics, increase communication among academic economists and central bank practitioners from around the world, and sponsor activities to explore the connections between these central bank functions.

In 2000, the Bank broadened its role as a facilitator of discussion and analysis of important public policy issues by convening conferences and colloquia. A highlight of these activities was the June conference on "Global Monetary Integration" (cosponsored with the *Journal of Money, Credit, and Banking*), which brought together prominent economists to explore dollarization and monetary integration. An earlier

conference, "Central Banking and Payments," addressed broad themes such as sharing the risk of settlement failure and payments-system design in deterministic and private-information environments. A winter workshop examined the concept of "Financial Fragility" and discussed topics such as balance sheet effects, bailout guarantees, and financial crises.

The Cleveland Reserve Bank addressed urban economic matters by sponsoring a conference on "Regulation in Housing Finance" with the *Journal of Real Estate Finance and Economics*. Discussion sessions focused on the Real Estate Settlement Procedures Act, primary and secondary mortgage market interactions, credit-market access, and the effects of the Community Reinvestment Act. A workshop on "Controlling GSE Subsidies" drew academic economists and policymakers from the Federal Home Loan Mortgage Corporation and the Office of Federal Housing Enterprise Oversight, as well as experts from the American Bankers Association and the Federal Home Loan Bank of Chicago.

In the area of economic education, the Bank again sponsored the Fed Challenge competition, in which teams of high school students participate in a mock Federal Open Market Committee meeting. The program, which entails extensive study of present-day economic conditions and monetary policymaking, grew substantially in 2000 and was attended by 190 students from Fourth District high schools. The Bank expanded its contributions to economic education by sponsoring the second annual "Essays in Economics" contest, which encourages junior- and senior-level college students to apply economic reasoning to current policy issues. The Bank also developed plans for a Learning Center, an effort that will educate students about the Federal Reserve's role in our economy as an administrator of monetary policy, a supervisor of financial markets, and a facilitator of national payments systems.

Quality Improvements *The Cleveland Fed furthered its progress in implementing and refining its strategic management framework. The Bank remains committed to its strategic vision—to become the best example of a private enterprise serving the public interest—and to its four corporate goals: efficiency and effectiveness, customer culture, alignment, and leadership. These efforts propelled the Bank into the final year of its existing strategic plan, and work is under way to develop a new plan that will further strengthen the organization's effectiveness in meeting the needs of its customers and stakeholders.*

To monitor progress, the Bank relies on its balanced scorecard to ensure that its strategic direction is aligned with Bank activities, expenditures, and the expectations of its customers. The balanced scorecard was automated in 2000 to provide Bank management with real-time access to strategic information.

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This annual report was prepared by the Corporate Communications and Community Affairs Department and the Research Department of the Federal Reserve Bank of Cleveland.

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