With less than 12 months to go, computer users around the world are scrambling to prepare for Year 2000. The problem? Software designed to save storage costs by using only two digits in year-date fields will have trouble interpreting “00.” That software unfortunately survived much longer than expected, and reprogramming now will cost billions. September 9 may be a Y2K dress rehearsal because some older programs use “9-9-99” as a code for invalid or missing data. February 29, 2000 (a leap day) also may confuse older programs.

To be prepared, banks must ensure the readiness not only of their computer systems and applications but also of their suppliers and the businesses to which they have made loans. This, of course, means that those businesses’ suppliers must be ready too.

Although these problems have received increasingly strident press coverage, hard data on how well they are being addressed are scarce. A recent survey provides some evidence. Most responding banks said they had evaluated more than 75% of their material business customers. Most also claimed that less than 5% of their customers were making unsatisfactory progress when evaluated. Finally, 95% of respondents had downgraded less than 1% of their material business customers because of inadequate preparation. While these results suggest that the Y2K problem is under control, only half of the banks contacted answered the survey questions.

Businesses’ overall readiness may mirror that of state governments. Some states, especially the Fourth District’s Pennsylvania, have already implemented more than 99% of their corrections. Others have not progressed at all. One thing is sure: An ounce of Y2K prevention—or, at this late stage, contingency planning—is worth a pound of cure.

SOURCES: Board of Governors of the Federal Reserve System, Senior Loan Officer Opinion Survey on Banking Lending Practices, November 1998; and National Association of State Information Resources Executives, Year 2000 Remediation Results.