



Many apparel and textile manufacturing plants in the Southeast have closed their doors or laid off workers as they have struggled against competition from offshore facilities.

Small business start-ups, such as Highland Bakery in Atlanta, are signs of hope for a sluggish economy. Owner John Mount turned a love of stone-ground bread into a business baking bread for restaurants and his own bakery-café, creating new jobs in the process.

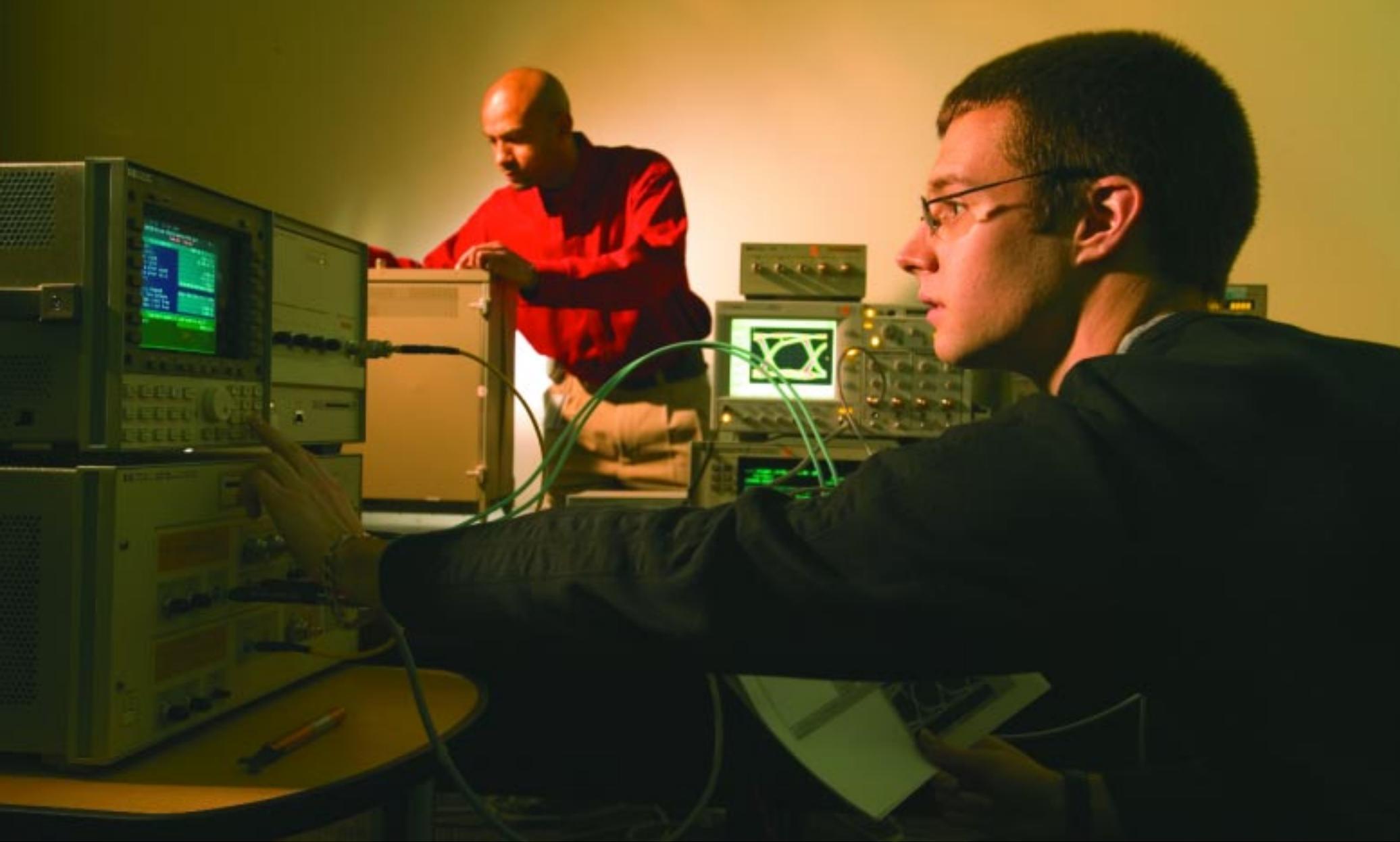


Grassroots perspectives enrich monetary policy

In 2003 the U.S. economic expansion gained a foothold with both strong output growth overall and more widespread growth, encompassing not only consumer spending and housing but also businesses' capital spending. But continued labor market weakness clouded these brightening skies. Although payroll employment began to pick up in the fall, job creation still seemed tepid at year-end.

The Southeast experienced this pattern as well. More of the region's textile and apparel factories padlocked their gates, and other long-standing, traditionally dominant industries struggled to cope with declining demand or stiff international competition. Understanding and interpreting these mixed signals were major challenges for monetary policy in 2003.

Yet signs of hope were discernible at institutions ranging from simple small business start-ups to high-tech institutions such as the Atlanta-based



In one of nearly a dozen million-dollar research labs at Georgia Tech's Georgia Electronic Design Center, researchers Benoit Chauvimeau (foreground) and Daron Foreman test their cutting-edge theories.

Centers for Disease Control and Prevention and Georgia Tech. Of course, the trick is knowing where to look for these signs. That's where the Federal Reserve System's regional structure, created ninety years ago, remains an advantage.

At the Atlanta Fed, preparation for monetary policy decisions is a blend of art and science. Data analysis and forecasting play a critical role in informing monetary policy. However, official statistics often lag behind the period they cover while fresh anecdotes and ideas from Atlanta Fed contacts in the Southeast add depth, context, and color to the economic picture. Having both channels of insight is especially important during times of rapid economic change, and the Fed's regional structure helps enormously in garnering the widest range of information available.

Atlanta Fed directors at both the head office and branches bring a wide array of viewpoints about today's dramatic economic changes. Directors come from large corporations and small businesses, and they include people from nonprofit organization executives to farmers and educators. By law, head office directors also include executives from small, medium, and large banks, whose jobs give them a ground-level view of economic conditions across the region. The Atlanta Fed also has an advisory council whose members represent small business, agriculture, and labor.

Having access to such diverse views ensures that economic developments in the Sixth Federal Reserve District and among its population of

about 43 million people are taken into consideration as part of monetary policy deliberations. Of course, monetary policy decisions must be made on the basis of what's best for the country as a whole. The Southeast, though, is in many ways a microcosm of the nation, so identifying emerging developments in this region can provide useful indications of what's on the national economic horizon.

The Fed's monetary policy process culminates every six to eight weeks at the Federal Open Market Committee in Washington, D.C. Clearly, the anecdotal information gathered from regional sources adds to the process of determining monetary policy.

Part of the Atlanta Fed's mission is to promote in-depth understanding of the Fed, its economic research, and its monetary policy decisions. Having a regional footprint makes it easier to achieve this goal.

The process of formulating an effective, well-informed monetary policy can be unwieldy, and it is not perfect. But in today's complex and globally connected economy, the Fed's grassroots relationships are more valuable than ever.



Working the night shift, Atlanta Fed employees Hien Dang and Monica Paul still process a high volume of paper checks even as the Fed leads the movement toward electronic payments.

When international ACH payments are available to Latin America, émigrés like the dos Santos family (Alan, Rene, Alex, and Marina) will be able to move money simply and with little cost from their home in Decatur, Georgia, to family members back home.



Doing the right things in financial services

Six nights a week, truckloads of boxed and bagged checks arrive at each of the six Atlanta Fed offices across the Southeast, prompting teams of employees to rush into action to ensure that each check is accurately and swiftly routed, cleared, and shipped to its destination.

The twelve Federal Reserve Banks process about one-third of all checks cleared around the country. Check volume has begun to decline in recent years as electronic payments become more popular, but the overall volume remains large. Though the Fed competes with the private sector in providing these services, the Fed's role as a service provider supports its mission to promote a reliable, efficient, and accessible nationwide payment system.

Few industries have changed more in recent years than financial services. In response, the Atlanta Fed, along with the other Reserve Banks,



Bartow Morgan Jr. (left), a fifth-generation Lawrenceville, Georgia, community banker and chief executive officer of Brand Banking Company, describes the renovation of the original 1905 bank building to the Atlanta Fed's business development officer Jeff Devine, who frequently visits bankers around the Sixth Federal Reserve District to listen to their needs.

continually seeks new ways to lower costs by standardizing and consolidating backroom operations. Another way the Fed adjusts to this shifting landscape is by staying in close touch with banking organizations in each Fed district. Because feedback from customers is especially valuable in financial services, the Atlanta Fed works hard to cultivate a network of listening posts in the Southeast.

C.R. “Rusty” Cloutier, president and chief executive of MidSouth Bank in Lafayette, Louisiana, is one such resource. As chairman of the Independent Community Bankers of America and a director of the Atlanta Fed’s New Orleans Branch, Cloutier is concerned that smaller community banks risk getting lost in the current shuffle of mergers and acquisitions, and he’s grateful that the Atlanta Fed is available to listen and to provide services that help his bank.

“We see the Fed as critical to the payments system,” said Cloutier, noting that the Fed represents all points of view. “The big four [banks] aren’t going to call us and ask what a bank like ours wants.”

The Fed’s network of local contacts provides input and feedback as the Fed develops and implements far-reaching changes such as check truncation and the digital transmission of payment information.

The Federal Reserve System helped shape the Check Clearing for the 21st Century Act, which was signed into law in 2003. The act gives legal status to a “substitute check,” making an electronic image of a check now legally equivalent to the paper original. Once “Check 21” becomes effective

in 2004, the check-clearing process will become more efficient as banks gain more latitude to move beyond often cumbersome paper-based check clearing.

In this quickly changing payment landscape, it’s wise to keep in mind the advice of business guru Peter Drucker: “Efficiency is concerned with doing things right. And effectiveness is doing the right things.”

For the Fed’s Atlanta-based Retail Payments Office, one of the right things is leading development of an international automated clearinghouse. Payments through FedACH International already allow individuals and businesses to exchange payments faster and less expensively with Canada, Europe, and Mexico, and funds transfers with other areas of Latin America will soon be possible.

In addition to creating close ties between Reserve Banks and their financial services customers, the Fed’s decentralized structure supports the resilience of the U.S. payment system in times of crisis. Fed contingency plans deal with scenarios ranging from terrorist attacks to major power outages. But simply by having multiple offices, the Reserve Banks can more readily ensure that payments will keep flowing in a crisis.

Whether by listening to the concerns of local bankers or getting feedback from customers who will send funds abroad through FedACH International, the Atlanta Fed works to ensure its constituents in the Southeast that we’re doing things right and doing the right things.



Bankers and bank examiners could easily get bogged down in paperwork as they try to stay on top of the rules, regulations, and supervisory requirements governing the industry. But Atlanta Fed examiners work hard to build working relationships with bankers at the grassroots level to help navigate these issues.

Juan Sanchez, an Atlanta Fed community affairs officer, talks with Hattie Dorsey, president and chief executive officer of Atlanta Neighborhood Development Partnership Inc., at Atlanta's Studioplex redevelopment project.



The human touch still matters in bank supervision

In today's competitive financial sector, banks face tremendous pressure to consolidate and automate to reduce costs, and these forces aren't easing. But trade-offs accompany consolidation. A particularly tough challenge for many institutions is to wring the most from potential efficiency gains and cost-saving initiatives without sacrificing personal service and deep-rooted ties to local communities.

In many ways, the Atlanta Fed mirrors these changes. The Federal Reserve System was originally designed as a decentralized entity capable of regulating a fragmented and geographically diffuse banking industry. Since the 1980s, as banks began consolidating and merging across state borders, the Fed adapted by eliminating duplication wherever possible and ensuring a consistent examination process for banks everywhere in the country.



Fernando Perez-Hickman, managing director of Banco Santander, discusses the growth of international banks in Miami, Florida, with Atlanta Fed officer Carolyn Healy, who focuses on supervising the activities of foreign banking organizations with offices in the Southeast.

This process of nationwide standardization continues today. But at the same time Reserve Banks remain vigilant about preserving their presence in the districts, seeing this regional presence as vital to an effective examination process. Reserve Banks have a close-up view of the financial institutions they examine, and they are authorized to quickly resolve many issues at a local level without having to deal with a centralized bureaucracy.

It would take several large bookcases to hold all the volumes of regulations and other paperwork that bankers and bank examiners must be familiar with. While regulations are central to banking supervision, the Atlanta Fed believes the human touch is also critical to success. Examiners and community affairs staff spend time in the field, where they can build relationships and leverage their knowledge of the diverse markets they supervise and serve.

In south Florida—the nation’s gateway to Latin America—Miami’s Brickell Avenue is home to many international and U.S. banks. These institutions serve businesses globally, and money from all over the world flows into and out of this region. Because banking in south Florida is diverse and complex, the Atlanta Fed currently has forty-eight examiners in its Miami Branch. These professionals understand the international financial marketplace as well as anyone, and they do their jobs better by operating close to the source instead of from Atlanta or Washington, D.C.

The Atlanta Fed’s emphasis on doing business at the grassroots level is a factor in community development. To support this effort, the Atlanta Fed

places a premium on reaching out to people in the field with staff in Atlanta and each of its five branch locations.

Delivering results is not always easy when a variety of people are involved, but the Atlanta Fed has established relationships at the local level. In doing so, it has gained the credibility to serve as an honest broker and bring the right people together—to advance the goals of the Community Reinvestment Act, which governs the way financial institutions meet community credit needs, as well as to support many other valuable local initiatives.

For example, Hattie Dorsey, president and chief executive officer of Atlanta Neighborhood Development Partnership Inc., said the Atlanta Fed has helped her organization’s financing efforts by explaining to bankers the rationale for the Community Reinvestment Act and the potential for profit in certain lower- and middle-income areas. By participating in conferences and building ongoing banking relationships, the Atlanta Fed “sends the message that CRA is good business with a good return on investment,” Dorsey said.

The Atlanta Fed’s message resonates in large part because we know our region. We are here to show a human face and the personal touch that bankers, civic leaders, and other stakeholders in the Southeast’s financial community have come to expect from an organization geared not just to rules and regulations but to making a difference at the grassroots level.



Businesses that make title and payday loans do not typically offer credit on favorable terms to their customers. But such businesses thrive on catering to people whose knowledge of economics and finance is limited.

Conferring during a break at the inaugural Georgia Summit on Economic and Financial Education are Patt Braaf (left), senior business manager at Fannie Mae Corporation, and C.W. Copeland, director of community outreach at the Consumer Credit Counseling Service of Greater Atlanta Inc.



Economic education at the grassroots

From young people just starting out to retirees on fixed incomes, consumers may find themselves struggling financially if they don't have the knowledge or tools to manage their money wisely.

What can be done to help such people recover their financial equilibrium and break out of the debilitating cycle of struggling to make ends meet as they live from paycheck to paycheck? Educating people about personal financial responsibility is a crucial step toward alleviating such problems, and the Atlanta Fed champions the teaching of economics and personal finance in schools and beyond.

Economic and financial education is of concern to the Federal Reserve because consumers play a huge role in the economy, with spending by consumers accounting for nearly two-thirds of the nation's \$11 trillion gross domestic product. The level of consumer spending depends to a large extent on how individuals handle their finances. Consumers' poor financial decisions can have highly detrimental consequences not only for



Student Ashley Monroe helps Atlanta Fed community affairs staffer Wayne Smith teach a personal finance class at Inman Middle School in midtown Atlanta.

individuals but for the economy. If a large number of households do not get the most from their hard-earned money or if they support economic policies that are misguided, economic growth in the long run will suffer. Simply put, economic illiteracy is expensive and painful—whether in the form of mortgage foreclosures and personal bankruptcy or in its effects on output over time.

While these problems are national in scope, the solutions more often than not are regional. At the local level, the Atlanta Fed can help identify cultural needs and workable solutions for adults by building relationships with people like Atlanta Fed director Suzanne Boas, head of the nonprofit Consumer Credit Counseling Service of Greater Atlanta Inc. Because she spends much of her time helping people cope with financial difficulties, she offers a wealth of insights into the financial situations of the region's families.

The Atlanta Fed's approach to filling in the gaps in financial and economic education in regional schools is to team up with other organizations that make a difference. The bank works closely with southeastern state councils on economic education and groups such as Jump\$tart and Junior Achievement. The Jump\$tart Coalition helps teach students about personal finance. Junior Achievement brings business leaders into the classroom to share their views on managing money, economics, and entrepreneurship. In 2003 Atlanta Fed staff were involved in establishing several Jump\$tart operations in Florida, Tennessee, and Alabama.

In addition to participating in these partnerships, the Atlanta Fed offers teacher workshops on monetary policy, tours of the Fed that illustrate its important role in the nation's economy, and economic and financial education programs in the classroom. The bank also takes a leadership role in conferences such as the 2003 Georgia Summit on Economic and Financial Education. The summit, cohosted by the Atlanta Fed and the Georgia Council on Economic Education, attracted educators such as Georgia School Superintendent Kathy Cox, business executives, and community leaders. Presentations and discussions at the summit highlighted the considerable progress that has been made in economic and financial education but also identified several important issues that still need to be addressed: improving teacher training in college, infusing economics and finance throughout the curriculum, and improving assessment and accountability of ongoing educational efforts.

Ultimately, these relationships, partnerships, and events support the Atlanta Fed's mission to formulate sound monetary policy as well as the bank's vision to be a good corporate citizen. These efforts would be much less effective without a grassroots presence in the region, where economic and financial education makes a real difference.